

[Chairman: Mr. Oldring]

[10 a.m.]

MR. CHAIRMAN: Good morning, everyone. We'll call the meeting to order. I'd like to begin by welcoming you once again to another meeting of the select committee on the Alberta Heritage Savings Trust Fund. With us this morning we have the Hon. Larry Shaben, Minister of Economic Development and Trade. With the minister are his Deputy Minister, Clarence Roth, and the president and managing director of AOC, Mr. Roy Parker. Welcome, gentlemen. We're pleased that you could be with us this morning and look forward to some useful input and discussions. I'd like to extend an opportunity to you, Mr. Minister, to open with a few brief comments if you feel that's appropriate, and if not, we can go straight into our question period.

MR. SHABEN: Thank you, Mr. Chairman. It's terrific to come to this committee again, although it's later or earlier in the year, depending on how you want to put it, than normal. I'd like to extend to all the members best wishes for a happy 1988. As a former member of the heritage savings fund select committee, I know how important the work is, so I'm not going to clutter up the available time by making any comments but simply indicate that we're prepared to respond to any questions that members might have.

MR. CHAIRMAN: Good. Thank you then, Mr. Minister. The items before us this morning, gentlemen, of course, are the Alberta Opportunity Company, the Prince Rupert grain terminal, Vencap Equities, and our rail hopper cars. I would encourage all members this morning, if we can, to try to perhaps be a little briefer in phrasing our questions, and hopefully more members will have the opportunity of getting all their questions answered that way. Begin by recognizing the Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman, and welcome to the minister, Mr. Shaben, and Mr. Parker and Mr. Roth, and a happy new year to you as well.

I guess what I'd like to begin my questions with this morning is some discussion around the Vencap investments and the program, \$200 million from the Heritage Savings Trust Fund. When that program was set up some time ago, the minister at that time was Mr. Planche, and he indicated that the purpose of Vencap was "to develop, diversify . . . and strengthen" Alberta's economy and to stimulate job creation. As I understood it, he also indicated that the investments would be in areas outside Alberta's traditional strengths in the economy, that being oil and gas, real estate, and so on. So I guess I'd like to ask the minister if he would make some comments as to how effective Vencap has been in achieving those objectives and goals that were laid out by Mr. Planche when Vencap was first established and when the \$200 million was provided from the Heritage Savings Trust Fund.

MR. SHABEN: Mr. Chairman, the question that Mr. Hawkesworth has asked allows, I think, a great deal of latitude in terms of the opportunity to express a range of opinions. The preamble to the question is accurate in terms of the objective that the government had in establishing Vencap Equities. The judgment as to whether or not the company has fully achieved the objectives: I think the jury is still out on it. The company has now made some 28 investments. To the end of October 1986 it was 27 investments where they had either invested or

committed \$85.5 million. The companies in which Vencap has been involved are public knowledge. They range from high-tech electronic companies such as Idacom, SPURT Investment, which is another investment capital company that allows for Vencap through their investment in SPURT to invest in smaller companies. So there's a whole range of companies: Applied Metal and Plastic Technology Corporation and so on. But the list is public.

I did some checking to find out because I anticipated this sort of a question. The total volume of business of the 27 companies in 1986 was \$552 million. Those companies have just under 4,000 employees. Vencap's contribution to the Alberta economy I think is significant when you take just that snapshot in terms of their involvement. It is a very large pool of equity capital. In the early months and years of its operation I think that a lot of Albertans felt the pace of their investments was slower than we had anticipated, but in the past couple of years that pace has increased.

MR. HAWKESWORTH: Mr. Chairman, I don't know whether the jury is still out on Vencap or not. How many years has it been now? Surely there should be some indication after five years of whether this is leading towards diversification of the economy or whether it's simply being used to finance amalgamations, takeovers, and developments in the oil and gas and agricultural industries. I think if you look at the areas in which these investments have been made, they are in areas that have traditionally been areas of strengthening in the Alberta economy and not in areas of manufacturing and high technology. Indeed, only a small percentage of the investments that have been made have gone into manufacturing and high technology, and the bulk of the investments have gone into areas that were not mandated by the Heritage Savings Trust Fund, whether it be engineering or construction or agriculture or oil and gas. I would like to have some indication from the minister of whether he is satisfied that the pattern of investments -- you know, an average of \$3 million on an average of investments; those tend to be medium- and large-sized businesses, not small businesses where the bulk of job creation can be found -- into areas that were not originally mandated by Vencap, whether he's satisfied with the direction that this program is going.

MR. SHABEN: Mr. Chairman, when Vencap was established and the debate took place in the Alberta Legislature and the legislation establishing the company was passed by the Legislature, it was clear both in the intention and in the legislation that the company would be arm's length from government. I think it's important that we recognize that once the company was established -- and the relationship between the government and the company is one where we have provided them with a \$200 million loan, the terms of which I think everybody's familiar with. The government is not involved directly or indirectly in any way in the decisions that the company makes with respect to its investments. The statistical information I provided the member is with respect to the impact of the investments that they've made thus far, and that is just under 4,000 employees and \$552 million worth of business, which I think by any sort of measurement is a significant level of activity of companies involved in Alberta commerce and trade and manufacturing. Beyond that, Mr. Chairman, I can't comment on specific investments that Vencap has made.

MR. HAWKESWORTH: Well, I take it, then, that this \$200

million of the Heritage Savings Trust Fund has been provided without any means of accountability or without any indication of whether the public objectives were being met, and if they're not being met to the satisfaction of the government or even of this committee, there really seems to be no way that is even being determined or considered. I can't believe that \$200 million would be invested without some indication from the minister that he's happy with the pattern of investments that are being made, and if he's not happy with it, that he's doing something about it. I just don't understand this.

But in addition to the investments that have already been made, there is a considerable amount of money that Vencap has not yet invested in a venture capital way. It's invested in short- and long-term securities, government bonds, and so on. I take it that the provincial government is earning a 4.5 percent return on that part of the investment for '85-86. I believe that's correct; if not, I'm sure you can correct me. I'd like to know where those investments have been made by Vencap, because apparently they will not provide that information to the public: where they have their short- and long-term securities invested; that is, the money that's not been invested in the venture program itself. I would ask the minister if he could provide that information to the committee.

MR. SHABEN: Mr. Chairman, there were a number of questions in that supplementary, but I'll try and respond this way. I think it should be clear, Mr. Hawkesworth, that the legislation does not provide for the minister to get involved in running the company or directing the board of directors. The company is a public company. Thousands of Albertans hold shares in the company, and the shares continue to be traded. The shareholders -- any Albertan has an opportunity to purchase shares, because they're publicly traded, to make their views known at the annual meeting. The company is structured as a public company should be structured, with adequate opportunity for shareholders to make their views known. In the financial structure there is a golden share, and if the government chose, there is an opportunity for us to take control of the company. If the hon. member is suggesting that, maybe, you know, he could make it more clear that he would advocate that the government get directly involved in making these loans as opposed to it being an arm's-length company.

The pool of available funds is a significant one. It's the largest equity pool in Canada. It is also the largest equity pool of a single company making the largest group of investments. So that \$85.5 million and the activities that are represented -- that's one in every 300 employed Albertans involved with a company in which Vencap has an equity investment. Without expressing a view on directly responding to the member's question, that's a significant level of activity in our province.

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

MR. HAWKESWORTH: First, could I ask the minister to address the question about the investments Vencap has made outside of its venture capital investments?

MR. CHAIRMAN: I'd be happy to put your name back on the list if we can . . .

MR. HAWKESWORTH: [Inaudible] the question I asked.

MR. SHABEN: Mr. Chairman, I'm sorry. I should have

elaborated on that. That's the kind of question that a shareholder should put to the board, because it's not something that I'm privy to.

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

MR. HAWKESWORTH: Two hundred million of our dollars and you're not privy to that information?

MR. SHABEN: The shareholders are privy to it.

MR. HAWKESWORTH: There's \$200 million of public . . . Put me on the list then.

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

MR. PIQUETTE: Thank you, Mr. Chairman. I'd like to welcome Mr. Shaben and the deputy minister. I'd like to address some questions relating to a couple of investments by the heritage trust fund, and that's the Prince Rupert terminal as well as the heritage trust fund railway cars for grain that we invested in.

I'd like to preface my question by indicating that many of the farmers that I've spoken to in northern Alberta these past six months have been complaining a lot about last summer, about problems with grain delivery from their country elevators back in July and August, lack of availability of railway cars, which was a problem at the end of the crop year. As well, now we have a problem at Prince Rupert terminal in terms of the management situation and the union at loggerheads over contract negotiations. I'm just wondering if the minister would make comments on whether he's happy with the situation -- after all of the investment we've made, where we're supposed to be guaranteeing Alberta farmers a greater availability of delivery of our grains to export markets through the heritage trust fund grain cars that we purchased, as well as the significant investment in the Prince Rupert terminal -- with the way those two areas of our investments have carried out their mandate, because we still seem to be receiving complaints relating to the transportation network as well as the delivery situation out of Prince Rupert.

MR. SHABEN: Am I happy? I'm always happy. But with respect to this matter of grain transportation, Mr. Chairman, I think that there always is room for improvement. Were it not for Prince Rupert and the investment in Prince Rupert, the system would not be able to handle the grain. There's been a dramatic increase in the amount of grain handled by Rupert. It moved up to 4.5 million tonnes in the last grain year, and the design capacity was expected to move about 3.5 million tonnes. So it's been very effective in moving western Canadian grain.

The turnaround time for cars is about 10 days shorter than it is through Vancouver. The utilization of the hopper cars -- I've got some numbers. They made 15,452 trips, moving more than 1.25 million tonnes of grain. So both of those investments on behalf of the people of Alberta, I think, are significant in serving not just agriculture but the total Alberta economy.

As far as being happy, I'm very unhappy about the work stoppage at Rupert. We're unhappy about the fact that Rupert in its early days didn't move the amount of grain we expected, and as a result there's been some accumulation, some capitalizing of interest because of their inability to meet the interest costs. But in terms of the service of Rupert to the western grain farmer, it's been a tremendous boon to the movement of grain.

MR. PIQUETTE: Going back to the lack of interest payments, has this improved in 1987 in terms of Prince Rupert meeting their commitments for interest payments on investments made by Alberta heritage trust fund with the increase in transportation tonnage this past year? Have they been able to meet that commitment?

MR. SHABEN: Mr. Chairman, it improved dramatically in that the Prince Rupert consortium paid to the Alberta government \$13.9 million in interest against an interest bill of some \$16 million. The shortfall is one that we're not very happy about in terms of their inability to meet the interest payments, but that's as a result of a different mix of grain than was anticipated, and in terms of the revenue that is generated by handling different volumes of different grains, and also by the price of grain and the very tight margins that are available to the shippers and the handlers. So it's been a problem, but it's a much improved situation over the previous year.

MR. PIQUETTE: In terms of the present situation of the strike at Prince Rupert, has the provincial government or your department exerted some pressure to get mediation started up again? Because I understand that yesterday the mediator walked out of the negotiations. What pressure has the minister brought to bear to get those parties back in negotiations again?

MR. SHABEN: Well, obviously, Mr. Chairman, it's a federal mediator that's involved, and we have maintained, in terms of our communication, recommendations to the federal government that the process move toward a resolution of the strike. When the mediator left yesterday, the Minister of Agriculture and I discussed the matter late yesterday and sent a telex to the federal government requesting that they order an end, legislate them back to work because of the significant negative impact that it has on our farmers in terms of their cash flow. So that telex went out yesterday.

MR. R. SPEAKER: Mr. Chairman, my questions are a follow-up to the ones I asked the Minister of Agriculture yesterday in terms of Prince Rupert grain terminal. The focus of my questions, Mr. Minister, is with regard to the administration. Ridley Grain Ltd. is the administrative body representing some six different grain handlers. Now, the message that comes clear to me from the farming community -- I'm sure you've heard it many, many times -- is that as producers, you know, here in western Canada we do not have any say in the administration of the grain terminal. We don't have anything to say about this present strike that's going on. We're helpless. We sit waiting, floundering, and going broke on the farm while the federal government sends a mediator that has done really nothing up to this point in time, and 69 people are affecting the security of hundreds of farmers out here on the prairies. Now, you know that and I know that. I'm not condemning yourself in terms of that, but I make it as a statement of how we feel as western Canadian farmers at the present time.

Somewhere, then, I think we should look at the administrative structure and also the legislative structure that is the authority in terms of the labour component out at Prince Rupert. Now, I'd like to say this: the Heritage Savings Trust Fund committee had the opportunity of touring the facility. We were impressed: a very excellent facility, modern, up to date. The fellow that helped in the design, because of his experience down at Vancouver, was able to eliminate a lot of difficulties that I guess

existed in the Vancouver plant.

One of the comments he made was that the plant could be run by management, and we could eliminate that labour component there. Now, I was impressed with that, because that might have been one of the answers to solving the problem that we now face as producers in not being able to ship our wheat and the backlog that's building up. I'd like the minister to comment on that. Is that possible? Because we look at the computer control centre: management does look after that; that's first of all. Secondly, each one of the stations that moves the grain from the car out to the boat could be a management position, as I see it. Maybe the minister could comment as to whether that is the crux of the argument going on right now, rather than wages.

I say this in light of the fact that we've invested \$134 million in terms of first mortgage bonds, and we have also put money in from our provincial general revenue. That is money we will not get back again. We should have some say in that kind of thing, and we should be able to assert ourselves in that process. So there's a number of questions there, Mr. Chairman, and if the minister would like to comment on all of them, maybe if I had just one supplementary, that would satisfy my needs at the present time.

MR. SHABEN: Mr. Chairman, yeah, there were a number of questions, and they are difficult questions. I'm not sure that I am able to answer them, but I'm able to offer my views. First of all, with respect to the Ridley Grain company, which is the consortium that owns the Rupert terminal, we do have a member on that board of directors, and that's Hugh Horner. Of course, he was one of the architects of designing this decision for us to get involved and to develop this terminal, so he continues to represent us.

With respect to the nature of the dispute, it does revolve around the unique nature of that facility, and you've described it very well. It is a unique terminal in that with its computerized grain centre, it requires considerably less labour to move grain. That really, in my understanding, is central to the dispute, not so much with respect to Prince Rupert but to the consequences of a particular decision there upon grain movements out of Vancouver or Thunder Bay. I think that's why it's a very difficult dispute to settle.

I've always had the view that the movement of grain should not be subject to work stoppages. I just had the belief that we should be able to, because our reputation as a supplier of grain in the world markets is essential to continuing to maintain those markets, and it seems to me another system needs to be found in order that the movement of our product can't be stopped this way. So that's why our telegram that went out yesterday is to get the federal government to intervene and legislate the terminal back into operation. There needs to be a better way of dealing with these things. The design of that particular terminal is such that it can be run by management personnel. That's central to the dispute, as I'm sure you already know. But our capacity to deal with federal labour legislation is obviously limited. All we can do is express our views, which we have done and will continue to do.

With respect to our investment in the terminal, it's a huge investment, and the financial returns will not be ones that are economic, but in real returns to our western Canadian and Alberta economy I think they are immeasurable. If we hadn't taken the lead to get this thing built . . . The capacity to move the grain at a price that is \$25 a tonne less than Thunder Bay is really significant to our producers. But in terms of the long-

term answer to the labour dispute, I know that Alberta can't make any decision that would impact on it, but all of us, I think, need to let our MPs know what our views are with respect to our capacity to meet our commitments internationally in moving our commodities to market.

MR. CHAIRMAN: A supplementary?

MR. R. SPEAKER: No, Mr. Chairman. I'll leave it at that at the moment. Okay.

MR. CHAIRMAN: Member for Edmonton-Kingsway.

MR. McEACHERN: Thank you, Mr. Chairman. Mr. Shaben, from your answers on Vencap to my colleague I think it's fair to say that you are abandoning responsibility for \$200 million of taxpayers' money that this government put out. Let me elaborate a little bit. You've given \$200 million to some friends of the Tory party -- and I'll back that up by reading a list of some of the original board of directors, and I guess some of them are still there -- and then sort of said, "Okay, boys, do what you like with it." At least, if you look at the mandate, they certainly have not lived up to it.

Mr. Planche appointed a board of directors for Vencap as early as 1982, even though the legislation wasn't passed until 1983. Newton Hughes was chairman of the corporation. Now, he started appointing the board of directors in 1982 even though, as I say, the legislation wasn't passed until '83. Mr. Hughes owned and controlled some 13,000 shares, 16 percent of Vencap. Dr. Allard was appointed; Dr. James Anderson, who was a retired vice-president of Canadian Commercial Bank, which donated some \$4,000 to the Conservatives in 1985; John Barry, of JEB Enterprises; Don Carlson, president of Carlson Developments, which donated \$2,025 to the Conservatives in 1985; Daryl Seaman, chairman of Bow Valley Industries, and we know their connections, contributed \$5,800 to the PCs in 1985 as well as an additional \$5,150 through its subsidiary, Bow Valley Resources Ltd.; Fred Sparrow, chairman of the board and chief executive officer of the Bank of Alberta, an Allard enterprise, which managed to direct \$950 to PC coffers in '85; Kenneth Travis, president of Liberty Holdings and Industries Ltd.; Norman Wildgoose, a retired partner of Deloitte Haskins & Sells, who owns 150 shares in Vencap. Oh, I could go on and on: Elson John McDougald, president of 3MC Stock Farms and Bar 5 Simmental Stock Farms Ltd.; Donald Taylor, president of Resman. So the list goes on and on.

Even assuming no particular wrongdoing in a sense, the fact is that you've appointed a bunch of people and sort of said, "Here's \$200 million, and now we're not responsible for that \$200 million." Your arm's-length agreement allows you through the back door to influence those people, much like you do with Alberta Energy Company, and yet not take responsibility in the Legislature. Both those companies should be set up as Crown corporations, and the minister should be responsible to the Assembly for the actions of those Crown corporations. How do you react to that?

MR. SHABEN: Well, first of all, a comment with respect to known Conservatives who have been involved on the board of Vencap. I somehow don't believe that's an indictment, because there are quite a lot of Conservatives who are business people. So I have difficulty connecting that.

A large number of the people that have been named are no

longer members of the board. We were involved as a government in naming the first, interim board, and henceforth the shareholders named the board of directors. We're not involved at all. I guess it's similar to the question, Mr. McEachern, that Mr. Hawkesworth asked. It's a view that is held by some that this company should be directed by the government as opposed to being at arm's length from the government. I tend to continue to have the view that we are better served by a corporation -- a venture capital corporation in this particular case -- that is at arm's length from the government. So you and I simply have a different view of it.

In terms of whether or not they function effectively or not, the agreement with the government with respect to the loan provides for a payment of 50 percent of the pretax profit. Everyone is familiar with what that return is, and we were well aware that this company needed to have a lot of time because the nature of venture investments is that it normally takes seven years before they begin to provide a return. So for that company to function and to grow and to build its portfolio, it needs to have the strength to be able to go through a period, through the normal anniversary of seven years or thereabouts, of venture investments. It's not like a debt instrument, where you're assured of an 8 or 9 or 12 percent return on the investment. These are investments that don't guarantee you a return, but it takes time.

So, Mr. Chairman, I guess there is a difference in the philosophy of how this entity should function. I continue to hold the view that it should be arm's length in order to avoid the political influence of decision-making on these 27 or 28 loans which we have had no involvement in whatsoever, and all of us may quarrel with individual investments, as we might quarrel, if we were members of the board, with the majority of members who made that decision. That's the nature of the way companies function. I had indicated earlier to Mr. Hawkesworth that there is a golden share and that protection is there for the taxpayers, that should that company be mismanaged, there is the capacity for the province to move in and take it over.

MR. McEACHERN: I'm not quarreling about whether they've mismanaged their own view of what that company should do, but that view of what the company should do is quite different from what the government's mandate that they gave them was. Mr. Hawkesworth already read that the mandate as set out by Hugh Planche was "to develop, diversify...and strengthen" Alberta's economy and to stimulate job creation in the province. In fact, on May 7, 1985, Derek Mather was quoted as saying that shareholders' profits are our priority, not creating employment or diversifying the economy. So they have taken a decision to make their own priority and set their own intentions; 26,000 shareholders putting up \$4 million have borrowed \$40 million on the strength of the \$200 million you gave them and are now going about their merry business doing what they want, not what the government set as their mandate.

MR. SHABEN: What is the question?

MR. McEACHERN: The question is: why don't you take back responsibility for that \$200 million? For one thing, you were talking about how it would take seven years; it will never take the \$200 million. Already they are the biggest company of their kind. Most companies of that type have only 15 or 16 individual portfolios; they get in and out and do it over and keep investing in new ones, because they see themselves as a venture capitalist that starts up companies, not keeps them going. This

company has stayed longer in most of its companies. There are 26 or 27 of them. It's a big enough portfolio now, probably too big for the board to manage, and they've got at least \$150 million of the taxpayers' money, which is earning 4 percent and which they don't need. And still you disclaim responsibility for it.

MR. SHABEN: I'm not clear, Mr. Chairman, on the member's recommendation. Is the member . . .

MR. McEACHERN: This recommendation is that you take back \$150 million, back into the general revenues of the province, and that you take some responsibility for that company, make it a Crown corporation and reset its mandate and see to it that they live up to it.

MR. SHABEN: So the hon. member is recommending that the government take over the company . . .

MR. McEACHERN: As a Crown corporation.

MR. PIQUETTE: Change the mandate. They're not living up to the mandate, so . . .

MR. CHAIRMAN: Order please.

MR. SHABEN: I'm not clear on the recommendation.

MR. CHAIRMAN: A final supplementary.

MR. McEACHERN: Two basic recommendations, then, for you to react to. Take back \$150 million, which they do not need and certainly will never need unless they're going to become far too big and unwieldy to handle their portfolio properly, because no other venture company is anything like that big. The other thing is, make it a Crown corporation and make it a typical Crown corporation relationship, the one between the company, the minister, and the Assembly of Alberta.

MR. GOGO: Mr. Chairman, on a point of order.

MR. CHAIRMAN: A point of order.

MR. GOGO: I don't think the Minister of Economic Development and Trade makes legislation for this Legislature. I think he must act within the legislation. I don't think for one moment it's fair of this committee to be making demands of the minister on who should create legislation for the Assembly. I think he must act in accordance with the legislation. I don't view the question as appropriate at all.

MR. CHAIRMAN: Thank you.

MR. HAWKESWORTH: On the point of order, there's an issue of ministerial accountability for public funds, and that's what we're trying to establish here. To what extent is there any accountability for \$200 million of funds out of this trust fund to meet the original mandate by which this company was set up to operate in this province? That's what we're trying to determine and ask the minister to take responsibility for.

MR. GOGO: On that point of order, Mr. Chairman, that is not what the Member for Edmonton-Kingsway was talking about.

That's an entirely different issue.

MR. HAWKESWORTH: He's talking about a relationship.

MR. CHAIRMAN: Order please. I think the Chair would certainly welcome the Member for Edmonton-Kingsway to bring forward a recommendation to this committee, and we can debate it at discussion time. The Chair would now recognize the Member for . . .

MR. McEACHERN: Mr. Chairman, if my last question is being ruled out of order, then can I ask a different question on Vencap?

MR. CHAIRMAN: The Chair would recognize the Member for Calgary-Mountain View.

MR. NELSON: Back to the point of order, Mr. Chairman, you haven't ruled on that point of order, and I'd just like to make a comment to the point of order raised by the Member for Lethbridge-West. First of all -- and I have my own views about Vencap -- it should be understood that the Alberta government loaned the \$200 million to Vencap, and there is an agreement in place as to how that money will be repaid to the government. Until such time as that money that is repayable has been defaulted, the minister and the government are doing their job in ensuring that the money is returned to the people of Alberta. There is an agreement in place, so I would suggest that the member not only is out to lunch but the situation is well in hand by the minister and the department.

MR. CHAIRMAN: I think the Chair has ruled and has suggested that if the member feels that that's an appropriate recommendation, he should bring it back in recommendation form, and we'll be happy to discuss it as a committee.

Again, the Member for Calgary-Mountain View.

MR. HAWKESWORTH: Mr. Chairman, in the annual report of the Heritage Savings Trust Fund, when we read about Vencap Equities, it indicates that the return on the heritage fund's investment is in the form of a percentage participation in Vencap's profit each year and totaled over \$8 million in 1986-87. Given that this would indicate to me a similar situation as that of a shareholder in the company, I would ask the minister if he would tell this committee: what are the investments of Vencap on which they're making a profit other than those investments in venture capital which are already alluded to previously in that paragraph? What are the other investments that Vencap Equities has made besides those noted?

MR. SHABEN: Mr. Chairman, that was the second question the hon. member asked in his first series of questions, and I've already answered it.

MR. HAWKESWORTH: Well, the minister said that that's a question a shareholder could put to the board of directors, and I look and see that we're sharing in the profit of Vencap. We're in a situation similar to that of a shareholder. Is the minister saying that he does not have that information from Vencap, where their other investments are made?

MR. SHABEN: No, I don't. We're a provider of debt. I'd indicated that we had a golden share, but that information the hon.

member seeks is available through the normal channels of a shareholder in a public company.

MR. CHAIRMAN: A final supplementary. Recognize the Member for Athabasca-Lac La Biche.

MR. HAWKESWORTH: I take it then that the minister refuses to answer the question or is unable to answer the question that I'm putting to him.

MR. CHAIRMAN: I think in fairness, hon. member, the minister did answer the question. You maybe didn't like the answer, but I think clearly the question was answered.

MR. HAWKESWORTH: The original mandate of Vencap was that it would not invest, as I understand, in real estate, financial services, oil and gas, and so on. Rather, it was to be a source of funding for companies, venture capital in areas of manufacturing and high technology.

In looking at the pattern of investments -- for example, P.T.I. Holdings -- if we go through them, it was amalgamated from a catering firm and trailer industries, Peace trucking industries and so on -- GEOTECH; S.N. Hanson; Stanley and associates; Peters & Co.; Strathcona Resources; Stuart Olson enterprises; and so on. If you look at the actual investments that have been made in manufacturing and high technology, it's somewhere in the order of \$13.25 million. If you include the loss of Niart, it's somewhere in the order of \$11.5 million, whereas investments in nonmandated areas total somewhere in the order of \$32 million. Then if you include investments such as that of Stuart Olson, BioTech, D & S Petroleum Consulting Group, and so on -- I'm not sure whether they fit into manufacturing or high technology or not -- that's another \$10 million.

So as we see, the original mandate for this company . . . The actual pattern of investments is into areas that were not mandated for Vencap, and a very small percentage of it has gone into areas that were mandated for Vencap. So I ask the minister: what mechanism is set up to communicate to Vencap from the minister's office whether he is pleased or not pleased with the pattern of investments that Vencap is making and whether it meets the objectives and the mandate provided in giving them \$200 million? Does he have any mechanism at all set up to communicate with Vencap over the original mandate of this company?

MR. SHABEN: Mr. Chairman, yes, I do meet periodically with the chairman of the board.

MR. HAWKESWORTH: Have you communicated any concern over this pattern of investment?

MR. CHAIRMAN: I'm sorry, member. You have had your final supplementary. I would now recognize the Member for Pincher Creek-Crowsnest.

MR. BRADLEY: Thank you, Mr. Chairman. I wanted to ask some questions relating to transportation, in particular a recommendation last year from the committee. May I have the liberty of reading it so the minister can refresh his memory if he isn't aware of it?

[Recommended] that funding be provided for the research and development of coal transportation technologies, and that consideration be given to investing in new generation coal rail cars as a means of reducing coal transportation costs in order to

assist in the development of markets for Alberta coal (e.g. the Ontario market place).

I know the minister last year commented that the department was involved in looking into research into new transportation technologies with regards to coal cars. Also, his department has been involved in the intergovernmental secretariat, I believe, that's been set up by the three western Premiers, the Premier of Ontario, and the Deputy Prime Minister to look at this issue of getting our coal into the Ontario marketplace. Could the minister comment on what has been done to date, if anything, in his department or in the government looking at this area of coal transportation costs and technologies?

MR. SHABEN: Yes, we did discuss this at the last heritage fund meeting, I believe, and the importance of moving our coal economically to market, whether it's to the west coast or to central Canadian markets, is really important. Our involvement has been, as I indicated, in examining ways of improving transportation. One of those that we discussed was designing not a new railcar but a new train, and the concept involved designing a train that had the same length, roughly one mile long, but would have 35 to 40 percent greater coal capacity, which could result in a significant decrease in the cost of moving coal by rail. We undertook a study in co-operation with national railcar, and the railways are now reviewing that study. There are other initiatives that are being considered in co-operation with the private sector, such as pipelining of coal, as well.

MR. BRADLEY: Could the minister advise if he has any knowledge as to when the committee set up by the Premiers and the Deputy Prime Minister is going to result in some action being taken or some recommendations coming from them?

MR. SHABEN: Mr. Chairman, the expectation is that the recommendations will come out of that committee some time during 1988.

MR. BRADLEY: Thank you.

MR. CHAIRMAN: Member for Lethbridge-West, followed by the Member for Calgary-McCall.

MR. GOGO: Thank you, Mr. Chairman. Welcome, Mr. Minister. I wonder if I could direct some questions, Mr. Minister, to you or Mr. Parker with regard to the Alberta Opportunity Company. To me it's been in my experience in the House a very important area of lending to small businesses. I note from the Alberta Opportunity Company Act that the primary purpose of the Act is to give loans to commercial enterprises owned and operated by Canadians who are resident in Alberta, and the expansion and strengthening of small business. Could Mr. Parker take just a moment to indicate to the committee the criteria on which loan applications are based -- i.e., is it the geographic region, is it the size of the business, is it profitability, is it potential cash flow, that kind of thing -- before I put a second question?

MR. PARKER: Surely. I would be more than happy to.

In our lending activities we look at several things which are part of our criteria. First and foremost is the ability of the business to become a viable operation upon completion of the funding from AOC. I guess the critical factor in that is the ability of the business to service its indebtedness to us and to any other

creditor that it has. To reach that conclusion, you have to do a fairly detailed review of the management, the markets, the opportunities that lie before it, and what the funding that we are going to provide will do for it to help improve those. Beyond that, certainly in our lending activities we have to be convinced that the business is unable to get the funding it requires from the private sector on reasonable terms and conditions. So those two, with the supplementary in regard to the operations of the business, are the basis on which we go forward.

MR. GOGO: Mr. Parker, I recall the former premier of Alberta, at a meeting of your board, expressing the view that the loss to AOC indicated the fact that it really wasn't taking the risks it should with regard to small business. I note in your annual report the loss this year was only \$600,000 compared to \$4.5 million the previous year, which leads me to believe that your company's becoming more in line with the banking system -- i.e., not taking as many risks as they perhaps should with small business. How do you react to that?

MR. PARKER: Well, I think that superficially one might take that view. However, the level of risk that we take I think is quite significant when viewed in the overall operation of AOC from its inception. Since our inception we have made loans to approximately 4,700 Alberta businesses for a total of about \$460 million. Of that, we have written off between \$47 million and \$48 million. So you're looking at a 10 percent write-off, which is a fairly significant amount. This varies. The amount that we write off in any one year really is not significant because it varies from year to year depending on the economic cycle and the state of the economy. Also, the loss shown also depends on the extent of the allowance for accounts in difficulty that we have above and beyond write-offs.

Now, in the year in question we had reduced our allowance for bad debts from 11 percent to 10 percent of our portfolio, so that showed up by way of a reduced loss in that particular year. In the current year, after we have done our review of accounts and have had our audit, we may come to the conclusion that there should be a further adjustment either up or down. So those are individual-year fluctuations which really don't reflect the true situation.

MR. GOGO: Well, I would take the opposite view; '86-87 to me should have certainly been an era when this government was acting in a very, I think, sensitive way to the needs of business and trying to help them out. The very fact that your loss was only \$600,000 almost indicates to me the opposite view, but that's a matter of opinion.

The final supplementary would be -- I don't want to sound parochial, and I as an MLA always avoid involvement, Mr. Parker, with constituents who make applications. I try to stay out of that. My job surely should be one of discussing policy with the minister. But I seem to get the feeling that although it's contrary to a lot of legislation, age of an applicant seems to be a factor. In other words, if you look at someone in their 70s -- and I'm not making an accusation -- I get the clear impression, the distinct impression, that it ties in more with the student loans to young entrepreneurial organizations, that if someone exceeds the age of 70, someone seems to make a judgment that this pioneer or these pioneers in Alberta don't have the same vitality for pursuing business. As a result, two of them were turned down in my community. Now, I know that's not really a fair statement, but I happen to think it's quite a true statement.

I want to put this to the minister. I happen to think that we have applicants who have done so much for this province, and they're prepared to keep going. They've made applications to AOC, and in my view, in the applications I've seen, they show a viability. Could the minister respond to the fact that in effect I'm making an accusation that it's now a young man's world, and we're forgetting that there are many seniors in this province who still have entrepreneurial skills and want to pursue them, and they look to AOC for help?

MR. SHABEN: I'm going to ask Mr. Parker to respond, but it would seem to me, Mr. Gogo, that one of the factors would be the term of the loan. If, say, it's a 20-year term, there might be some question about whether or not an individual of 70 should be provided with that kind of a loan. But that's just a facetious answer. I don't think that . . .

One of the things I wanted to comment on was 1986 and the numbers. One factor that might have impacted upon actual losses experienced by AOC or by financial institutions during 1986 could be the impact of the small business term assistance program, which was a tremendous benefit to small businesses who were able to restructure their financing on a fixed rate over 10 years at 9 percent. It helped a great number of companies, and that may have had an impact. I don't know whether we've analyzed it or not in terms of its total impact on our own corporation, but it could conceivably have had an impact.

Roy, do you want to make a comment about the age of applicants?

MR. PARKER: I would be more than pleased to. We have no criterion that says we won't lend to you because of your age, except the other way around. If you are under the age of consent and are not an adult, we will not lend to you because we cannot take valid security and cannot do business with you. However, just because someone is 70 or 75 doesn't mean that they're a competent businessperson. If they are not competent, then they get treated the same way as someone who is 35, and we turn them down. We had one particular case -- I can't recall two, but certainly one -- where a person approaching that age has approached us on a number of occasions with a number of financial statements and a number of proposals which differ quite significantly, one from the other. We just do not have confidence that that person is able to do what he says, and we would prefer to leave the risk to the people that he already owes money to as opposed to taking that over. That's a judgment and a matter that has been looked at all the way through the system, including board of directors, and the conclusion is the same on all levels, so we've got nothing against people whatever their age is.

I'd like to make one other comment about what we did in 1986-87, which, in spite of the fact that our loss was, I guess, \$600,000, was the year in which we approved more loans for more businesses in Alberta than any other year since our inception. We are quite proud of that, in a year that at least part of it was difficult economic times, and I think we helped fill a gap that was needed with that performance.

MR. CHAIRMAN: Member for Ponoka-Rimbey.

MR. JONSON: Yes, Mr. Chairman. Further with respect to the Alberta Opportunity Company, as I recall one of the previous speeches from the throne, there was an indication that the Alberta Opportunity Company would be looking at new initiatives,

new directions with respect to not just financing in the sense of giving out loans but also in other areas. I wonder if the minister could inform us what has taken place with regard to those new directions.

MR. SHABEN: Mr. Chairman, yes, that was an initiative we announced in the throne speech. It's an area that Alberta Opportunity Company is addressing itself to. We felt that in a policy sense there was considerable difficulty in accessing venture capital in quantities below \$1 million -- generally, Vencap addresses itself to a million dollars or more -- and asked the board of directors of AOC to examine and establish a capability to respond to requests for venture capital in smaller sums. Our expectation as a result of discussions with the chairman of the board and Mr. Parker is that during 1987-88 the Alberta Opportunity Company will provide about \$10 million in venture capital to applicants that approach them during the course of this year.

I think it's a tremendous gap that is being filled by AOC for those companies that require venture capital as opposed to debt capital and have the capability of growing. It's an area that isn't served as adequately as it should be by the private sector, so it's an exciting area. As any venture capitalist knows, it takes a long time for a venture capital company to build a portfolio. It's very costly and time consuming to examine proposals, but AOC is gearing up and is expected to respond in the way that I've outlined during 1987-88.

MR. JONSON: A supplementary, Mr. Chairman. The minister has indicated that some \$10 million has so far been involved. Is there any particular pattern to the type of enterprise that is being funded? Do we see one particular section of small business which is coming forward for this type of support?

MR. SHABEN: I'll ask Mr. Parker, since he's intimately aware of the applications that are coming forward, to respond.

MR. PARKER: In response to the question, I should give a little background. Our priority in this venture funding division that we have recently established is for businesses involved in manufacturing, high tech, tourism, and forestry. But not exclusively. If something else comes along that looks very promising and is worth while, then we most definitely will look at it.

One other aspect of it is that it is part of our policy that in the view of the board we should not provide venture funding, equity capital, to businesses in competition with other Alberta businesses, because we would be giving them an unfair advantage over those who don't have the ability to get this government funding from them and, in effect, they might be being harmed by their own tax dollars. So with that in mind, at the moment we have nine commitments that are outstanding for about \$5.5 million, and they range a broad spectrum. Generally speaking, you could consider them leading edge or high tech in the biochemistry field, in computer software, in the plastics industry, manufacturing. They're all extremely interesting, exciting businesses with very significant potential to them.

But we have to bear in mind, too, that in this type of research-oriented industrial activity, there are other people in other areas that are also involved in this type of research. Some of these may very well find out that somebody in California or Ontario at a later date has come up with something that's newer and better. But in the meantime we see this gap as much larger than we had originally anticipated. We've looked at about 50

deals, to a reasonable degree of investigation, and have come up with nine approvals in what is known as early stage financing. The regular private-sector venture capital companies generally don't get involved in the early stage. They like it to be at the next stage before they put their funds in because there's less risk involved. Our average of about \$600,000 is low. Most venture capital firms are interested in the \$1 million to \$5 million in their first venture, because it's no more work to look at the one for \$5 million than it is for one to \$600,000, and therefore your costs per dollar invested are a lot lower.

So that's where we stand and where we're going. We, as I say, so far have had a very strong response from many good people, and it's a much greater market niche we're filling than we thought existed before.

MR. JONSON: One final supplementary, Mr. Chairman. I appreciate that in the venture capital area the time period for return is -- I think seven years has been referred to or whatever is agreed to. Could the minister or perhaps Mr. Parker elaborate on the type of arrangement that is arrived at for recovering or having the company benefit from the equity investment they've undertaken?

MR. SHABEN: I'll make some general comments. In providing the financing to AOC in order to undertake these ventures, clearly the recognition is that venture capital does take time to provide a return and also that the risks are higher. The risks are considerably higher in terms of the potential for losses. So on an annual basis, after reviewing it with the president and the board of directors, Treasury Board makes a decision on the allocation of funds to AOC for the purpose of venture financing. I believe that in the current year the allocation is \$15 million, and the expectation of the board and the administration is that they will probably utilize about \$10 million. So it's done on an annual basis and will continue to be done on an annual basis.

My hope is that at the end of six or seven years it will no longer be necessary for the government to flow funds to AOC but the investments will revolve as a result of AOC divesting themselves of their shares and then reinvesting the money in new ventures. It goes back to earlier questions, that the nature of venture financing is that you can't judge the success of a venture investment for about six to seven years, and in order to make a judgment on a portfolio, it's even longer than that because it depends on the number of investments and the time frame. So it's completely different than a lending portfolio in terms of knowing how successful you are and in terms of your investments or the level of risk.

Anything to add, Roy?

MR. PARKER: Yes. The only other part I would add would be in relation to the other part of Mr. Jonson's question, and that is the basis on which we put our funds in and how we expect to get the funds back. We can do it in any number of ways. We can buy common shares, preferred shares. What we have done almost exclusively, although not completely: we have developed a participating debenture, which allows us to put our funds in, accumulate a modest return on those funds, and the repayment is based upon the performance of the company. So if, for instance, we put in \$500,000 and we say, "All right, we want in the long term 8 percent on that money," then that may take five to six years for them to generate sufficient funds to pay us that 8 percent, pay us our funds back that we invested, and then we get an equal period of time after that with the same percentage of sales,

which is our bonus for taking the extremely high level of risk on an unsecured basis.

The reason we've developed this is that what is called in the industry an exit strategy is very difficult when you make investments of relatively small amounts in small companies which are not publicly traded. If you're investing in a publicly traded company, then there's a market and if things go up you sell and get out. But for us to do this on this basis gives the company an incentive to work hard, do well, pay us back as quickly as they can so that they minimize the return to us. At the same time we get our money out; it's not locked in indefinitely.

MR. CHAIRMAN: The Member for Stony Plain, followed by the Member for Lacombe.

MR. HERON: Thank you, Mr. Chairman. I was glad that the last comments made a clear distinction between the equity investments on a balance sheet and the debt instruments, for very clearly it takes us back to the original mandate of Vencap, when a large portion of young and developing businessmen were crying for patient, high-risk equity capital, which in the purest sense takes you right into the equity side of the balance sheet where you share equally in the risks and rewards, as Mr. Parker just pointed out, that you may get your money back. We've seen cases of the hula-hoop, the Beatles, some of them -- the computer companies -- where the dividend in any one year is 10 times the original investment. But it's also been pointed out that it's high risk, and you have to go through a large number.

I think that distinction is very, very important, because it's not a matter of saying contractually, "Please give us back our money; we're in the venture capital business," but waiting for that money to bear fruit and sometimes watching it grow and even allowing your capital to stay in there for a longer period of time than was originally anticipated. That takes us directly into the mandate and the reasons for the government investing \$200 million in a patient equity vehicle: that businessmen were not dependent on stop-and-go fiscal policies or grants, that they had to rush their business proposals and plans to make a March 31 deadline, that the money would be there at arm's length with an independent, blue-chip board of directors.

I ask the minister today if he is satisfied in a general way with the way the \$200 million has been set aside to create that development opportunity for new business. Are you satisfied with that mandate and the way it's developed to date?

MR. SHABEN: Well, Mr. Chairman, that's similar to an earlier question, and it is one, first of all, of whether the law is being followed as it is in statute. The answer to that is yes.

With respect to the way the company was structured and the way the funds were provided to it, that's a decision that has already been made. It made immanently good sense and makes immanently good sense, so that the company has the flexibility to make its investment decisions and is not driven by a fixed rate of interest on the loan. But the incentive is there for them to do better.

Clearly, one of the questions that is constantly asked of me, not just in the House, is: has Vencap met its mandate? That's a question that's been asked. They have not in any way violated the legislation. Okay? So that's not answering the question directly. I have a personal view that I think Vencap could be more aggressive in its investment activities. But the way the legislation is structured is that it is at arm's length and is run by a board of directors. Unless a decision is made by the govern-

ment to amend the legislation, it'll continue to operate that way.

MR. HERON: Mr. Chairman, the minister has made it crystal clear to us, then, that the \$200 million is not there with an objective of getting it out as fast as possible but to give the firm a degree of permanence and a longer life and to respond to business initiatives as they develop in Alberta. I've taken a little extra time with the preamble, Mr. Chairman, following a precedent that was set a little earlier, because I think it's important that we have a pretty fair background and understanding of the heritage fund's investment in this company.

There was one part, though, that did disturb me. The hon. Member for Edmonton-Kingsway brought up the appointment of board members, and I'd like to focus on this aspect with the minister: how the board members are appointed. Clearly, I could not sit in a room and hear a negative innuendo and criticism, by name, of people like the late Newton Hughes without responding. I happen to have been in the business community at the time the government was looking for top-drawer people to set up Vencap on its right foot. I happen to know that this man in particular, with an outstanding contribution in the military and the business community, was coaxed out of retirement to lend his expertise to the creation of Vencap, as were many others. I think it's a totally unnecessary cheap political shot, Mr. Chairman, to bring his name into this heritage fund these many years, especially after his passing and his very significant contribution in the humanitarian fields and many, many others. So I would like to make it a matter of record that I feel that the government of Alberta and the members of the day were to be complimented for the long list of high achievers that set Vencap on the basis it's on today and that it wasn't just another total disaster such as occurred in many parts of the world when they tried to get into the venture capital business.

I would like to ask the minister, though: what is the procedure today for appointing members to the Vencap board?

MR. SHABEN: Mr. Chairman, first Mr. Heron referred to the financial arrangements. We talked about the \$200 million being a loan and the government receiving half of the pretax profits. In addition to that, the arrangements for repayment of the loan are that it's repayable at an annual rate of \$1,000 per year until the year 2002, then at the rate of \$15 million for each of the years 2003 to 2012, and a final balloon payment of \$49.981 million. That's the arrangement between the government and Vencap for repayment of the loan.

The question with respect to the board of directors. They are appointed by the shareholders. The government doesn't get involved at all. The only involvement the government had was in the appointment of the very first board that designed the program and the legislation and worked with government. Subsequent to that we have not been involved in any way at all in appointment of members of the board.

MR. HERON: Mr. Chairman, the minister has confirmed to us that because the government has loaned money by way of debenture, it parallels very closely any other situation where you lend money by way of debenture to a public company: that you do not have the say in appointing board members or getting into the operation of the company. I think that's a very important distinction that we have to make as members of this heritage fund investment committee: that a public company operates its company's board through its shareholders. I think the original objectives of Vencap have been met in this regard.

I'd like to zero in on perhaps a very technical question now, and that is to look at the SPURT investments within Vencap. We've heard Mr. Parker speak to the change in the mandate of AOC. I would like to ask your opinion as to whether, since both are in the business of providing equity capital to junior start-up situations, these could be viewed as competitive, or are they complementary?

MR. SHABEN: First, I applaud establishment of venture funds such as SPURT. As the members know, the government of Alberta has also invested in SPURT, as well as Vencap and other companies. It's involved in seed capital investing in early stage opportunities of where the assessment is that these would have significant growth potential.

My personal view is that I'd like to see three or four more SPURTs operating in Alberta in addition to the Alberta Opportunity Company because those different pools of equity are tremendously important for business development. One of the reasons we established the small business equity corporations, that established close to 400 pools of equity, was to provide that opportunity for businesses to access equity as opposed to debt financing. Those who are familiar with the western Canadian economy and the Alberta economy [know] how dependent we have been on debt and that these vehicles, whether it's Vencap or AOC's venture activities or SPURT or SBEC, are all designed to reduce the dependence that the Alberta business community has on debt and to create opportunities for growth companies by providing opportunities to access equity capital or seed capital. So I'm a supporter of funds such as SPURT.

MR. CHAIRMAN: Thank you.

Before I recognize the Member for Lacombe, the Chair would again remind members that I am trying to show some flexibility, and I have allowed a number of you to carry on with your preamble at considerable length. But I felt that the minister had set a very good tone for this morning's meetings when he agreed to forgo his opening remarks so that we could get lots of questions in. The Member for Lacombe I know will put us right back on track again. I would ask all members to please keep that in mind in the balance of their questions. I recognize the Member for Lacombe.

MR. R. MOORE: Thank you, Mr. Chairman. I guess with your statement I had better get back on track. However, the hon. Member for Stony Plain in his opening remarks said exactly what I had to say: that it was very unfortunate that people in this House had to stoop to the area of having innuendos against respectable Albertans who have contributed so much to our communities and our economy. But anyway it was well said by the Member for Stony Plain.

Getting back to AOC, Mr. Chairman. It's a policy of this government that we don't get involved too much in the ownership of businesses and what have you. I wonder what the policy is with AOC. It must be like any other lending institution and end up with some repossessions. How do they handle that to get it back into the private sector so they don't become the landlord of a lot of real estate or businesses?

MR. PARKER: Well, if I can reply to that, Mr. Chairman. Yes, we do follow normal lending practices. If a customer of ours is not successful and ceases operation, then it's up to us, acting in the stewardship of the money we're responsible for, to minimize our losses and to maximize the return through the sale of these

assets. In a great many cases, probably the majority, when difficulty occurs a receiver is appointed on behalf of ourselves and all the other creditors, and it is the receiver's responsibility to maximize the return to all concerned.

In the due course of events, we will from time to time have assets that we take ownership of, generally land and buildings. For instance, if we finance a machine shop, the machining equipment will be sold off either under auction or by tender or whatever will maximize return. But the land and buildings is a different matter. In recent years there has been a surplus of real property in Alberta, and it's been difficult to sell. Again, in order to minimize the loss that we're faced with, assuming the business can't be sold as a going concern, which is your first choice in any liquidation, then we will take title to the property in order to end the receivership and the expenses related to it.

We have had, ranging over the past three years, oh, I would think from 30 to 50 properties around the province that we have taken title to. We are constantly attempting to sell them. I think at the moment we're down somewhere under 40. Being for many years the lender that we are, of what is called last resort, and with most of our loans in numbers being in smaller centers -- you find that property in a smaller centre, particularly if it's of a single purpose or special nature, is very difficult to get rid of, there isn't a market for, so that is why we have accumulated some of these properties. But we have one individual on our staff who is assigned to this duty, to ensure that the water is turned off, the power is turned off or on or whatever is required, and attempts to sell these. We have in the past 18 months reduced our portfolio significantly. This is with an eye to (a) getting them back into use and (b) minimizing our loss in the situation.

MR. R. MOORE: Supplementary, Mr. Chairman. Because you are in the high-risk area and these businesses a lot of times may not have the best expertise, I'd like to know what assistance you give these people. You give financial assistance, we know; you give them the funding. But we've seen ADC have great success in their peer counseling program. It's been an excellent vehicle to bring these businesses along and help them overcome some of the financial problems they meet. Are you doing anything in financial counseling to help these businesses? We give them the funding. Or do we just let them float like a lot of other financial institutions do and hope they make it?

MR. PARKER: Well, that's a very good point, and I'm glad you brought it up. We give counseling in several ways. First of all, all our loans officers are knowledgeable financial people. That is their life's work. They are in continuing contact with their customers from the time of application until it's paid out. If there are difficulties, then they are available. It's part of their job to go in and to be with and to discuss matters and attempt to come up with some conclusions that will assist. Beyond that we have a small consulting group of six individuals in our company who work almost exclusively with our own customers. They have backgrounds in accounting, construction, merchandising, marketing -- various aspects of business operation -- plant layout, production flow. So if we see, particularly when we're making a new loan, that there are some weaknesses, we say, "Look, we've got the support we want; as part of the loan agreement, you've got to work with our people and just make sure you are upgraded in these areas of weakness." This has been extremely successful in dealing with new businesses and with existing ones who were beginning to get into trouble. Quite

frankly, when people are in great difficulty and nearing liquidation or insolvency, our attempts, the consulting and advice, have been too late. So we've put our thrust in the new businesses and the ones that are either going well or are just beginning to have trouble in that area. Beyond that, the department has consultants in the small business division which are available to all businesses in Alberta, and we certainly refer customers to them when it's appropriate.

MR. R. MOORE: Supplementary. With the opportunity company, are we doing anything extra to assist these small businesses during the times we're in right now? They're tough economic times, but they've come through them. Are we doing anything extra to help them? Are we just acting as a straight loan company in there? Has there been any talk, with their loans, of refinancing, restructuring, those sorts of things?

MR. PARKER: Yes, most definitely, and I think other lenders do this as well, because there are situations where it's obvious that there's been a setback and there should be a postponement of payments. Generally speaking, the principal portions will be postponed for up to six months and then you look at it again, or if the security and the outlook warrant it, we will change... For instance, they may have started off with a 10-year amortization on their loan. After three and a half years things are pretty tough, but a good bit of it is land and buildings, and we have confidence in the people that they can weather it. There's nothing to prevent us from rewriting that back to 10 or 12 years, which will give them a lower payment. It's something that we do and consider on a regular basis.

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

MR. PIQUETTE: Yes. Mr. Minister, my constituency has always been a very economically depressed area. We have in the Lac La Biche region 707 welfare cases. If you multiply that by the families, the number of people, it indicates the kind of economic disparity that exists in many ridings in northern Alberta.

The minister indicated that he's not pleased with the way Vencap has lacked aggressiveness in its venture capital investments, which was basically to try and diversify the economy and hopefully not just simply be sitting in urban areas but be actively seeking investment for economic diversification in forestry, et cetera, in the rural areas. But you've indicated that Vencap is not in violation of the legislation set up by this Legislature. Would the minister be willing to change the legislation governing the mandate of Vencap to make it a better tool for economic diversification for the small business community which has been left out of the present mandate?

MR. SHABEN: No. At the present time, we're not considering amending the legislation. In responding to some earlier questions, I discussed generally how important it is to have available a variety of sources of equity capital: private-sector companies, Alberta Opportunity Company, private-sector/public, SPURT, SBEC. There is no one single pool of equity capital, Mr. Piquette, that can respond to all the demands that exist, because certain expertise is developed within companies to respond to certain kinds of requests. So no, at the present time we're not contemplating a change in the legislation.

MR. PIQUETTE: I'm sorry to hear that, because I think there's very definitely a gap that exists for the small business com-

munity. You know, we have Vencap, which has basically a floor price of about \$1 million minimum investment in venture capital. Were you indicating previously that AOC is now in the equity venture capital? Could you indicate what is the floor price investment in equity? Do they respond to the small business sector requirements of usually from \$10,000 to maybe \$100,000 in terms of equity funding?

MR. SHABEN: Mr. Parker talked about 50 applications AOC has received and processed and looked at and identified nine, I think he said, that they have made a decision on. That's quite a high ratio, incidentally, Mr. Piquette. Normally it is much more in terms of number of applications to result in nine investments, so I'm pretty pleased with that sort of number. What that tells you is that there is a tremendous amount of time and work involved in examining each application for venture capital.

What most venture capital companies do is generally find that the cost of looking at a proposed venture could run as high as \$50,000 in terms of staff time and examination of the project, so the area that is really tough to respond to is those areas requiring seed capital. That's the \$10,000 to \$100,000. That is a very difficult area to respond to, because often the cost of looking at a project is far more than making the investment. That was the key reason the government established the small business equity corporations, to be able to respond to that kind of demand.

Now, at the present time I'm searching, in co-operation with AOC, to look at ways we can respond to that seed capital requirement. It's a really tough area. Mr. Parker has said that AOC is responding in the area of generally under \$1 million. But you'll find in most cases that that response will fall in the area of \$200,000 to \$1 million. That tough area you've identified is up to \$200,000. We're searching for ways to respond, and it's really difficult. The SBEC is one of the very best ways of responding. There may be others. If the hon. member has some ideas, I'd be happy to look at them.

MR. PIQUETTE: I guess my last question would relate to the creation of jobs in areas like the Lac La Biche area, which has potentially very important natural resources in the forestry industry. For example, Athabasca and La La Biche have both been identified as potential sites for, say, an oriented strand plywood plant in the area. How is the government carrying out its mandate to make sure these resources are developed? What are some of the tools you can be using through Vencap, AOC, or other economic development tools to make sure companies do develop these resources and get people off welfare? Have you been making studies in those areas at all?

MR. SHABEN: Obviously, an economy should be built upon its strengths, and one of the strengths of northern Alberta and the region you refer to, and also the region I represent, is its forest resource. In order to develop that resource, you need to have people who know how to do it. Some classic blunders have been made in Manitoba and Saskatchewan, where the government developed a forest resource, ended up going broke and having to shut the thing down. So in order to develop that resource, you need to attract people that know how to harvest it, how to process it, how to manufacture it.

One of the key areas we're working on is identifying the resource, in co-operation with Forestry -- and the hon. member has probably seen the booklets that identify the forest resource and the potential in that Athabasca forest -- and presenting it to

as many potential investors as we can, including, on my recent trip to Japan and China, letting the folks there know that there is this resource and we'd welcome them to come and look at making an investment and developing a variety of forestry plants from sawmills to board plants to pulp mills to whatever. That activity in terms of encouraging investment is one that is a key part of our responsibility -- not just foreign investment, of course, but people in Canada. But you need the lead player, Mr. Piquette, or players in order to provide the support to them. As I say, difficulties have been encountered where governments have taken the lead, particularly in forestry or some other types of industries.

MR. PIQUETTE: As my last supplementary, are you aware of some of the federal taxation which very often negates investments in areas which are economically depressed. I was kind of surprised to . . .

MR. CHAIRMAN: Excuse me. Actually, that's question number four you're on now. You've actually had three supplementaries, and there are three other people that are still trying to get on the list. So the Chair would recognize the Member for Edmonton-Kingsway.

MR. McEACHERN: Thank you, Mr. Chairman. I'd like to make it perfectly clear that there was nothing I said that should cast aspersions on the chairman of the board of Vencap or the shareholders. My quarrel is with the government policies: how that was set up and how that was handled. I guess all I can say to a couple of people that were complaining is that they must be suggesting that anyone who is named as a friend of the Progressive Conservative Party is somehow casting aspersions on them for being friends or something. My quarrel is with the government and with the arrangements, and that is very clearly what I was trying to get at.

Last year we asked the minister some questions about Vencap, and here are some of the ones we did not get answers on. We asked about the \$1 million minimum loan. We asked about the interest-free loans for directors. We asked about investments in companies not registered in Alberta. I've never heard any reply to that. We asked about investments in oil- and gas-related industries. We've asked a number of questions today for which we've not got answers. We were told, in fact, to go and ask Derek Mather. I did that last year and got good answers from him. But if he is the one we should be asking, why isn't he sitting here beside you so he can answer the questions here in this Assembly?

MR. SHABEN: Mr. Chairman, we've just been all through that.

MR. McEACHERN: You could bring him with you and he could answer the questions here.

MR. SHABEN: Mr. Chairman, the company is a publicly traded, private-sector company. It has a loan from the government. I don't know how much clearer that can be made, Mr. McEachern. It is not the Alberta Opportunity Company; it is Vencap. I would suggest the hon. member review the legislation, read it, and if he has some suggestions with respect to amending the legislation, bring them into the House either by way of a private member's Bill or something else.

MR. McEACHERN: Okay. A second question. Again we

were refused information about the investments on the stock markets. Now, I would remind the minister that the commercial investment division of the heritage trust fund -- we get a schedule 5 once a year when the Treasurer appears before the committee, outlining the investments on the stock market and in bonds and that sort of thing; in other words, where we get our 4 percent back on our \$200 million. Why can't a similar kind of arrangement be made in this case?

MR. SHABEN: I don't understand the question. The manner in which Vencap invests its funds that are not in equities? Is that the question?

MR. McEACHERN: Securities and bonds and all that. Most of the \$200 million is not in those companies; it's in securities and bonds and that sort of thing.

MR. SHABEN: That's a similar question that was asked earlier, Mr. Chairman. I would recommend the hon. member put it to Vencap.

MR. CHAIRMAN: Final supplementary.

MR. McEACHERN: But surely it should be part of the statement and should be before this committee, and you should be responsible for it.

MR. SHABEN: No, no. Our relationship with Vencap is that we have a \$200 million loan with them. [interjections]

MR. CHAIRMAN: Order please. The Member for Calgary . . . [interjections] Order please. Order please. If the member doesn't want to use the proper process and recognize the Chair, I would ask him to extend the courtesy to the other members of . . .

MR. McEACHERN: That was my third question.

MR. CHAIRMAN: You've had your third question. The Chair now recognizes the Member for Calgary-McCall.

MR. NELSON: Thank you, Mr. Chairman. A year ago we talked a little bit about Lyon Mountain, one of Mr. Parker's and my favourite subjects. Lyon Mountain is still operating. I know that Alberta Opportunity has pumped a lot of money in there, and whether or not it was necessary in total is a matter of question in my mind. I would like to know where this mountain stands at the present time insofar as the investment AOC has and what is proposed insofar as removing that investment. Has Mr. Lyon had the capacity or the ability to retrieve that particular investment he's made through Vencap and what have you?

MR. PARKER: Well, as far as where Lyon Mountain stands now, it's in operation and will continue to operate for the balance of the year. It is still in receivership with the receiver responsible to it, and until such time as the legal matters involved with all the creditors can be straightened away, that will be the situation. We're working with the receiver, attempting to get things resolved so clear title to the property can be made available so that it can be put up for sale. Once that has happened, we will attempt to sell it, but at the moment there is not clear title available because there are a number of other creditors behind us involved. Until that goes through the courts and is done

in accordance with normal matters in legal aspects, we will continue to be involved with it through the receiver.

As far as Mr. Lyon is concerned, once it's in a position where it can be sold, he along with anyone else or any company in the public is free to bid on it and reacquire it.

MR. NELSON: Thank you.

MR. CHAIRMAN: Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. There's been some reference made to performance of Vencap in comparison to other venture capital funds across Canada, so I'd like to make reference in my questions to a report published by the Association of Canadian Venture Capital Companies in 1984. It was entitled *Characteristics of Successful Companies Financed by Canadian Venture Capital Sources*. In this report I gather that venture capital organizations participated in 91 percent of all strategic planning decisions made by their recipient companies, generally by means of board representation. Now, I think if you review the list of investments made by Vencap and the appointment of Vencap board members to the boards of those recipient companies, Vencap does not appear to have anywhere near this degree of representation on the boards of its recipient companies. I'd like to ask the minister if that's something that concerns him, and if so, is it something he brings up when he meets with the chairman of the board of Vencap?

MR. SHABEN: This matter of involvement of venture capital companies in the ongoing operation of a business is common practice for venture capital companies, and that involvement can be by way of membership on the board or by other methods. It doesn't necessarily and exclusively mean that that involvement is at the board level. Often it's in a more direct consulting role with management as opposed to being with the board, and sometimes that's a more effective involvement. I know that with Alberta Opportunity Company there was an earlier question about AOC's consultative -- I think the Member for Lacombe asked the question about consultative work with the companies AOC's involved with. That's not at a board level; it's at the management level, and it's often very effective. So yes, there is that capacity, and I'm sure it is a decision that is made by the board of Vencap as well as the administration as to how to maintain the best sort of relationship with that company as well as protecting the investment. I can't respond beyond that, except in general terms, because those are individual judgments that are made depending on the nature of the investment and the company and its management.

MR. HAWKESWORTH: Thank you, Mr. Chairman. As well, you know, carrying on this line of comparing Vencap with other funds across the country, apparently a Canadian venture capitalist reported an average rate of return on equity investments of 53.3 percent in 1985. I wonder if you would tell us how Vencap has performed in relation to this reported rate of return.

MR. SHABEN: Mr. Chairman, I don't have their annual report in front of me, but that return on investment has a great deal to do with the maturity of the investments and the age of the company. Vencap is a very new company. I think in its last year it invested some \$23 million, and in its first year it was something like \$8 million. Bearing in mind what the sort of life cycle of a

venture investment is, I would suspect that it will be a number of years before you can really track how effective Vencap is in terms of its return to its shareholders. I think one of the tests, Mr. Chairman, would be to look at what's happening with the price of the shares on the market. They are remaining relatively stable. That's a response to the fact that the returns aren't there. That wasn't at all unexpected when the company was established, and that's the reason for the structure of the loan. We expected it to be a longer pull until the shareholders benefited significantly from the growth of that company. Again, I don't have a copy of their annual report, but I'm sure the hon. member could pick one up.

MR. HAWKESWORTH: I guess this is my last question this time at bat. I gather also from the Association of Canadian Venture Capital Companies that they reported small- and medium-sized businesses with less than 100 employees have generated all of the net new jobs in Canada between 1975 and 1982. They also reported that big business had no job creation from 1975 to 1982 and thus had zero share in total job creation. Now, I think your experience with AOC has kind of confirmed this, that you've discovered an unmet need out there in the venture capital market in this province. So I guess in terms of the role which AOC is now going to play in venture funding, is there a global amount of financing, a sort of upper limit or even a lower limit of funding, that's going to be available to AOC from year to year, given that there seems to be a very significant need here that Vencap is either unable or unwilling to meet? What kind of global amount of financing will be available to AOC for venture funding?

MR. SHABEN: Mr. Chairman, in the current year \$15 million has been made available to AOC. As I indicated, their and our expectation is that about \$10 million of it will be placed. The decisions with respect to the next fiscal year of budgetary matter, and that will be dealt with on a regular basis -- I think the amount of funds has to do with the capability of AOC to respond. As Mr. Parker indicated, in order to identify nine investors they closely examined 50 applications. So there is a capacity problem for any venture company to look at more than a certain number of applications. As AOC gains more experience, Mr. Chairman, we'll be better able to respond in terms of knowing an appropriate amount of funds.

I don't think there's any magic figure I could give the hon. member, except to say that we're really excited about what AOC has done in its early stages and are enthusiastic about AOC's management and board capability to respond in that area.

MR. CHAIRMAN: If the Member for Edmonton-Kingsway is succinct and quick, he'll be able to get one quick question in, I'm sure.

MR. McEACHERN: On the Alberta Opportunity Company, I first want to compliment the minister on the direction they're moving with the equity investment side of it. I want to say, though, that I think it's been a bit slow. Perhaps that's been indicative of the AOC for a lot of years. For instance, they're facing 53 legal claims of some \$29 million for companies that feel somehow they've been wronged in the process of getting loans. The company, by the way, has made no provisions for any losses, assuming they're going to win them all. I don't know how that will turn out.

I guess my question is: are you still requiring the companies applying to try three bankers first before you will look at them?

MR. SHABEN: Just some general comments, and then I'll have Mr. Parker respond. For a financial institution that is owned by the provincial government, where the board of directors is appointed by the provincial government, whose mandate has been to be a lender of last resort, I think the performance of the company has been very good. Eighty-five percent of the businesses that were financed by AOC are still operating, which is a pretty good tribute to the company. I suspect that when you're dealing with the wide variety of individuals seeking financing who have been unsuccessful from banks and you're in a position where you have to call a loan, there are going to be disputes. I don't think out of a portfolio of some 4,700 that is a very high number. I don't have a way of judging it.

With respect to the final question the hon. member had about requiring a turndown from three banks, the board isn't sticky on that, but they will test whether or not financing is available from another financial institution before moving for debt financing. But some communities don't have three banks. They may only have two.

MR. PARKER: Really that's a good question and a popular misconception, because in actual practice, on loan applications

up to \$150,000 what we do is write to the bank of the applicant for a reference and say: "This is the proposal they're putting forward to us. If you would like to provide the financing, let us know and we'll step back until you've made your decision." Ninety-nine times out of 100 they write back and say: "Yeah, good guy. He's done this, done that. We recommend you provide the funds." And that's it. He's not chased around from pillar to post. That is the reference for other financing.

Over \$150,000 we require at least one letter, and if they've got gold bricks in the treasury, we want to make sure they're not using us where they should be using the private sector.

MR. CHAIRMAN: Good. Mr. Minister, Mr. Parker, and Mr. Roth, on behalf of the committee I want to thank you for appearing with us this morning. We appreciated some very helpful information and some fruitful thoughts and suggestions. Thank you.

MR. SHABEN: Thank you, Mr. Chairman.

MR. CHAIRMAN: We now stand adjourned until tomorrow morning at 10.

[The committee adjourned at 12 p.m.]