

[Chairman: Mr. Ady]

[2 p.m.]

MR. CHAIRMAN: I'd like to call our meeting to order. We'd like to welcome the Hon. Peter Elzinga, Minister of Economic Development and Trade, along with his department officials. We appreciate them taking time to appear before the committee, and we look forward to their input.

Just prior to moving on to the main portion of our committee, I'd like to give an opportunity for those who may have recommendations that they'd like to submit and have read into the record, if they have some.

MR. TAYLOR: Mine is not exactly a recommendation, but I would like to ask the chairman to obtain a ruling on the question of moving amendments in committee while there are still questions to be asked on the floor. Could you get a ruling on that?

MR. CHAIRMAN: Hon. member, I presume you don't mean "amendment." You mean "adjournment."

MR. TAYLOR: Adjournment, yes. I'm sorry; did I say "amendment"? No, because I want a ruling on whether or not the chairman of a committee can accept a motion for adjournment while there are still questions on the floor.

MR. CHAIRMAN: The chairman will be glad to clarify that to the committee hopefully as early as tomorrow's meeting. If there is a discrepancy, we'll have it clarified or else confirm the position we've taken.

One other point the Chair would like to make is for those who may be submitting recommendations tomorrow: would you mind making a typewritten copy available to the clerk, because we're going to have a new legislative clerk tomorrow, just for the day. It would be helpful to her if she had the name of the person who's submitting the recommendation and the recommendation typed up for her records.

MR. PASHAK: Mr. Chairman, just for the record, tomorrow is the last day for the submission of recommendations?

MR. CHAIRMAN: That's correct. The reason for that is because we're ready to move into the debate of the recommendations on Friday. So it only follows logically that we should have all the recommendations submitted prior to entering into the debate on those recommendations.

If there are no further questions on that point, I would invite the minister to make whatever opening comments he would like to make, but prior to doing that, I would ask him to introduce his government officials that he has with him. Following his opening comments, we will move into the question portion of our committee meeting.

Hon. minister.

MR. ELZINGA: Thank you very much, Mr. Chairman and colleagues. It's a delight to have the opportunity to be before the heritage fund committee again. I will follow your counsel and introduce the individuals I do have with me. I'm delighted to have senior people from our department with me, Mr. Chairman and members, recognizing that I've only held this portfolio for a short period of time, so in the event that we are into some specific details, we can be forthcoming in those details to members of the committee.

I begin by introducing Mr. Clarence Roth, the deputy minister within our department, who is seated to my immediate left; then Mr. Roy Parker, who is the president and managing director of the Alberta Opportunity Company, on my immediate right. Mr. Terry Eliuk, who is the director of financial services and administration, is beside Mr. Roth, and then Jim Armet, who is the right-hand person in my office, is beside Terry.

My remarks will be very brief in view of the fact that we as a department did not enter into any new ventures during '88-89, but we've continued to administer some ongoing projects which were initiated in prior years under the capital projects division and the Alberta investment division.

Dealing first with the capital projects division. Two projects were administered during 1988-89, one being the rail hopper cars. Just to share with members of the committee, these cars moved approximately 890,000 tonnes or 10,577 carloads through Vancouver, Prince Rupert, and Thunder Bay during the '88-89 crop year, that being August 1 to July 31. To report also to members, three of these cars were severely damaged during the '88-89 crop year and have not been replaced. There are presently 994 cars still in active service. Secondly under the capital projects division, Vencap Equities Alberta Ltd., whereby as I'm sure hon. members are aware, there's a some \$200 million participating loan from the Heritage Savings Trust Fund which was forthcoming in '83, '84, and these business operations we feel significantly enhance and benefit Alberta's economic development. For the year ending March 31, 1989, Vencap recorded revenues of some \$31.1 million and net income of some \$9.5 million. The company held venture investments totaling \$71.1 million in 28 companies as of March 31, 1989.

Relating to the Alberta investment division, this department is responsible for four investments made under this division. Number one, the Alberta Opportunity Company, of which I'm delighted Mr. Parker is here with us, because this company has played a substantial role in the further diversification of the endeavours within the province. The company has introduced venture and seed capital funding programs to make equity investments in developing businesses. I understand that there are presently some 347 loan guarantees in venture investments which took place during the year 1988-89.

Hon. members are aware, too, that we do have investments in the Prince Rupert grain terminal. The terminal, in its fourth full year of operation, exported some 2.7 million tonnes of grain or 23 percent of that exported through the west coast during the '88-89 crop year. The terminal has been instrumental in increasing the proportional amount of grain exported through the west coast to 66.2 percent of the total Canadian exports from some 55.3 percent in the previous year.

Another investment we were involved in under the Alberta investment division is the small business term assistance plan. As hon. members are aware, this program was established to make fixed rate financing of some 9 percent available to the Alberta small business community for a maximum term of 10 years. Approximately 12,500 businesses made applications under this program for an average loan amount of some \$85,000. As hon. members are aware, too, the maximum that one could apply for was \$150,000.

That's a brief overview, Mr. Chairman, and I will throw myself into the hands of the committee. We look forward to doing our level best to respond to what questions or concerns members might have.

MR. SPEAKER: Thank you, hon. Minister. We appreciate

your overview.

Just prior to calling on the first committee member for his question, I'd just like to go over one more time, so that the committee is very clear, what this department and this minister are responsible for to this committee. Under the Alberta investment division, he's responsible for the Millar Western pulp mill, Alberta Opportunity Company, the Prince Rupert grain terminal, and the small business term assistance plan. Under the capital projects division, he oversees Vencap Equities and rail hopper cars.

We'd ask members of the committee to please keep their questions directed to those particular projects. I'd like to recognize the Member for Lacombe, followed by the Member for Calgary-Forest Lawn.

MR. MOORE: Thanks, Mr. Chairman. To the minister on the question of Millar Western Pulp Ltd. There's \$120 million in trust fund money invested there. I would like to know, now that the mill is operating, just when that mill will begin paying back on this loan.

MR. ELZINGA: Mr. Chairman, as hon. members are aware, the government invested some \$69 million in the fiscal year '88-'89 in the Millar Western pulp mill. The payments, I understand . . . Maybe I'll ask my deputy, Mr. Roth, to help me with this.

MR. ROTH: Mr. Chairman, the payments are related to cash flow. In other words, once the operating costs are deducted, then repayment is related to the remaining cash flow. So it all depends on the profitability of the operation, then, as to how quickly it pays off.

MR. CHAIRMAN: Supplementary.

MR. MOORE: Yes, supplementary. Now, we know we have \$120 million of heritage trust fund money involved here, Mr. Chairman, and I wonder why when we see that we have so many other companies in the private sector that could provide financing for these projects. We see it today in the Pacific pulp one and the Japanese one up in Peace River. There seems to be a lot of capital out there in the private sector to do just what we did there at Millar Western. Is there a reason?

MR. ELZINGA: Mr. Chairman, the reason is that this will be the only chemi-thermo-mechanical pulp mill operating in Alberta. It's very environmentally friendly, and because of that it has a unique quality to it. For that reason we did involve ourselves in support towards it.

MR. MOORE: A supplementary on the same area now. We've heard a lot of talk lately on the possibility of requiring Alberta pulp mills to use a certain percentage of recycled material. I'd like to know if there's any stipulation for Millar Western to use recycled material. Does recycled material have an effect on the rate of return on an investment? Would we be placing a stipulation on a mill that would make them uneconomical? That's part of the question.

MR. ELZINGA: There is that discussion as it relates to the economics, and I'll leave that for another time. But there is no stipulation as it relates to the specific question. It's noteworthy, though, that the information I have is that this is one of the few

mills within the province that is owned and operated by Albertans themselves too. This is one of the reasons again for our involvement.

There has been some discussion with a number of the mills as it relates to recycling facilities. There is no specific commitment as it relates to this mill, though, for recycling.

MR. CHAIRMAN: Thank you.

The Member for Calgary-Forest Lawn, followed by the Member for Wainwright.

MR. PASHAK: Thank you, Mr. Chairman. My questions have to do with Vencap. I have to admit that I have a little trouble understanding this company. Basically, my first question would have to do with the total amount of money that's been set aside out of the Alberta Heritage Savings Trust Fund, which I assume is \$200 million, and provided to Vencap. That loan, as I understand it, or amount of money that's been so provided, is to be repaid in its entirety back to the Heritage Savings Trust Fund by the year 2013, I believe. Is that the total amount of money that will come back to the Heritage Savings Trust Fund as a result of making this \$200 million available? Or in addition to that, are there moneys on an annual basis coming back from some of the investments or from the original money that was provided to Vencap and is being invested?

MR. ELZINGA: Yes. Vencap pays approximately 50 percent of its pretax profits to the government in lieu of interest. To share with the hon. member, the return on our investment has been approximately 5 percent. But it's worthy of comment to note that the purpose of this was to attempt to further diversify our provincial economy. As the hon. member probably has seen lately, they are much more active than they have been in the past with their investments, and they are attempting to add greater diversification with that activity.

MR. PASHAK: Now, as I understand it, some \$71 million of the original amount of money that was provided has been loaned out to small businesses. So there's approximately \$130 million that's left sitting there that Vencap is investing not in small business to promote economic growth but maybe in some other way to earn interest on that money, and only half of that money comes back to the province. How do you justify that? I can understand loaning out money to small businesses and getting a return maybe at a reduced value in order to provide an incentive. But I really don't see how you can justify taking \$130 million worth of public money in effect, having some other group invest that money, and get any kind of return on that when those are public dollars.

MR. ELZINGA: Well, the hon. member raises a very legitimate point, and that is part of the reason why Vencap has gone through some internal difficulties themselves, because the thrust was to be more aggressive than it was. I think he will acknowledge, though, that over the last number of months there have been more investments and their activity has been greater than it was in the past, mainly because we have indicated to them, as the hon. member has raised, our concern as it relates to the amount that had been invested in the past. They had the \$200 million here, and we wanted them to be more active in the investment fields whereby there would be greater involvement of their ventures within the province.

MR. PASHAK: Nevertheless, there is still some of that original sum of money that has not been invested in economic diversification or whatever purpose the government subscribes to. That money is earning interest, and not all that interest comes back to the public treasury. How does the minister justify that?

MR. ELZINGA: As the hon. member is aware, when Vencap started there were certain agreements reached as to what would be returned to the government. In the event that their profitability increased substantially more, there will be a greater return to the provincial government, but the fund was established, as the hon. member indicated in his question earlier, to have them involve themselves to a greater degree in venture funding. They haven't necessarily followed through with that mandate, but I am encouraged by what they have done lately.

MR. CHAIRMAN: Thank you.

Member for Wainwright, followed by the Member for Calgary-Fish Creek.

MR. FISCHER: Thank you. Welcome, Mr. Minister and support staff. I'd like to commend you and your staff for the good work you've been doing in our economic development portfolio. It has been a very big portfolio, and certainly it has a big impact on our economic activity right across our province.

My question this afternoon would be on the Prince Rupert grain terminal. The six grain companies that were involved with that had a loan from our heritage trust fund and the last time around didn't meet the interest payment. What has happened this year with that? Have they been making their payments?

MR. ELZINGA: As the hon. member has indicated, no, they have not been making their payments. I'll ask Mr. Roth if he'll elaborate a bit as it relates to the Prince Rupert grain terminal.

Maybe now would be a good time to mention to hon. members, too, that it is with some sadness, but joy on behalf of our deputy, that our deputy will be leaving to become the chairman and chief executive officer of the Prince Rupert grain company. Is that correct?

MR. ROTH: Not chairman. Chief executive officer.

MR. ELZINGA: Chief executive officer. We're saddened because we're going to lose his expertise. He has been so helpful, at least to me, and I know to previous ministers too, as it relates to these items.

With that, sir, if I could ask you to elaborate a bit on the Prince Rupert grain terminal.

MR. ROTH: Yes. Mr. Chairman, just to supplement. We had drought the year before this past year, so the throughput through the terminal has reduced down to the order of about 2.1 million tonnes, that being one of the low points for the terminal, but it's anticipated that with improved crop yields we'll see that increase again. What has happened is that there has been a significant increase in throughput in the west coast, so with the addition of Prince Rupert this last year, the split in Canadian throughput in west coast ports was 66 percent, up from about 55 percent of their previous level.

MR. FISCHER: Did they miss two payments, or did they make part of an interest payment on that?

MR. ROTH: The cash flow that has been received from Prince Rupert Grain has been directed toward interest, and each year they've not completely covered the total amount of the interest. So there's not been any pay down on the principal involved.

MR. FISCHER: How do we prepare to handle that, then, to make sure our heritage trust fund is going to receive that? Is that just extended on to the end of it? What arrangements have been made with that?

MR. ROTH: Mr. Chairman, the amount that has not been paid is added onto the back end of the payment, and this has increased the amount from \$106 million on the mortgage to \$134 million. The proposal by the company has been that once they can exceed over 4 million tonnes throughput per year on a continuous basis, they can then make their payments. They have increased the level of charge up to the maximum allowed by the Canadian Grain Commission. They've done that in relation to the other terminals in Vancouver, which are not up to the maximum. So they have gone as high as they can there, and what's required is additional throughput. It's anticipated that the terminal could get as high as 5 million tonnes throughput under the existing structure there.

MR. CHAIRMAN: The Member for Calgary-Fish Creek, followed by the Member for Calgary-Foothills.

MR. PAYNE: Thank you, Mr. Chairman.

Most members of the committee will be aware that the minister in recent days has made a speech or two in which he's indicated that there's declining interest on the part of the government with regard to stimulating or influencing the marketplace through such instruments as loans and loan guarantees. I believe the minister has also indicated that as the economy improves here in Alberta - and certainly that's my expectation - business ventures will find it increasingly difficult to get money from the province. I'm wondering if the minister would be prepared to comment today on whether the Alberta Opportunity Company will be scaling back assistance levels accordingly.

MR. ELZINGA: It's not our intention as it relates to the Alberta Opportunity Company to have it scaled back. What we had indicated - and I hope hon. members are like minded - was that with the improving economy there was an opportunity whereby individuals would have greater latitude as it related to finding equity sources for their businesses other than government. I'm talking more to the ad hoc arrangements. We're going to continue on, though, with a number of our programs that are in place, one of them being the Alberta Opportunity Company which, in our minds, has played such an important role as a lender of last resort.

MR. PAYNE: Mr. Chairman, some funding for the Alberta Opportunity Company comes from the General Revenue Fund, and some funding comes, of course, from the heritage fund by way of debenture each year. I'm wondering if the minister could share with the committee today the criteria or the operating rule of thumb that is used to determine in fact how much will be advanced by way of debenture to the AOC from the Alberta Heritage Savings Trust Fund.

MR. ELZINGA: I'm going to ask Mr. Parker if he'll elaborate

a bit on this. As the hon. member appreciates, we go through our budgetary process, and at times we've made greater requests than have been forthcoming through our budgetary process because we feel the Alberta Opportunity Company is a very valuable tool. But as it relates to the specifics, I'll ask Mr. Parker if he will . . .

MR. PARKER: Yes. Each year we develop our budget based on forecasts of the level of activity that will take place the following year. Obviously, this is an imprecise science, being six months before the period starts. But in any event, we come up with a global figure for our lending, our venture investments, and our seed capital, which is just getting off the ground now. Historically all of this has been funded from the Heritage Savings Trust Fund. As you can imagine, for something like an equity investment, whether it be venture capital or seed capital, this is a very expensive way of doing it, because you've got payments that have to be made to the heritage trust fund while you don't have a response to your investment for a number of years in normal situations in venture capital. So we're coming to a time where recommendations are being made that this will be changed. Our lending end of the business will continue to be financed by the heritage trust fund, but the venture and the seed capital will be financed from the General Revenue Fund on a new type of instrument which will relate to the income we receive from those as far as its repayment goes and not continue to contribute to the deficit, which would be the case if it were done the other way.

In regard to the other aspect of our funding, historically from the General Revenue Fund, AOC doesn't have an equity base. As you can well imagine, any business that's to be successful has to have a significant equity base. So to compensate for this, we have had a grant each year in support of small business from the government through the General Revenue Fund, which has been, I believe, 8 percent of our outstanding balance as of the end of the previous year. This has met a significant portion of operating expenses and write-offs, but it hasn't met the whole amount due to varying economic conditions.

MR. PAYNE: Mr. Chairman, my final supplementary has to do also with the Alberta Opportunity Company, and I hope the chairman will extend me an opportunity to set a backdrop for the question. I think it's safe to say that Albertans generally, and certainly members of this committee, expect the Alberta Opportunity Company to operate at a loss. I say that because its clientele is comprised largely of business organizations that have had the door closed on them at the traditional or chartered banks. I think there's certainly support within the committee and within the government for such a mechanism. But I think it's also safe to say that there is a point where the loss rate becomes so great that common or popular support for that institution would be eroded.

As I recall testimony before the committee last year – and at that point I was not a member of the committee – the loss encountered by AOC was of the order of 10 to 11 percent. My question is: what are the current losses or loss rate, and does the minister regard that as reasonable given the spectrum or scale I outlined in my preamble?

MR. ELZINGA: I can share with the hon. member that the loss rate is much the same as what was indicated last year, whereby now it's 11.7 percent. We find that acceptable. We naturally would like to have no loss rate, but with the type of

involvement and the type of financing we're involved in, it's only natural that we are going to have some losses. If hon. members have any suggestions for us as to how they might differ from what we are presently doing, we're open to those suggestions too, but we're doing our level best to make sure the losses are kept to a minimum amount but recognizing, too, the type of risk in some of the funding we are involved in. We find that acceptable.

MR. PAYNE: Thanks, Mr. Chairman.

MR. CHAIRMAN: Member for Calgary-Foothills, followed by the Member for Edmonton-Meadowlark.

MRS. BLACK: Thank you, Mr. Chairman. Welcome, Mr. Minister.

My first question deals with Vencap. Since it was launched in 1983, we invested \$200 million as a participating loan from the heritage trust fund. I was wondering, Mr. Minister, based on Vencap's mandate, which includes the start-up phases of companies plus enhancement of existing companies: what percentage of participation is there for new companies as opposed to existing ones? What is the percentage breakdown?

MR. ELZINGA: I'm not sure myself, and I will get the Vencap officials to give us a detailed answer on that. I'm not sure as to what the percentage of new companies is, off the top of my head, but I can share with the hon. member that I will get her a detailed response to that question. Unless some of my officials have a sense as to what the percentage is, forgive me, I don't.

MRS. BLACK: Well, okay. Then my first supplemental question is: when we get involved in venture capitalizing through companies such as Vencap, how do we ensure that we don't interfere with the natural economic trends of competition within the marketplace and take away that level playing field from other companies with similar backgrounds or similar marketplaces? How do we not overassist companies to compete with other companies through traditional financial institutions?

MR. ELZINGA: Well, that always is a fine line, and Vencap does a fairly thorough investigation themselves prior to making these investments so that they are sensitive to other companies and, hopefully, they will not cause anything that would be harmful to those other companies with their involvement. I know from the information that has been given to me that occasionally in the past it has happened, but they do a fairly thorough examination prior to their entry into any field.

MRS. BLACK: Okay. My last supplemental, Mr. Chairman, is really a combination of Alberta Opportunity Company and Vencap. When a potential venture capitalizing situation is presented through Alberta Opportunity Company, do you pass that over to Vencap?

MR. ELZINGA: We do on some occasions. A number of individuals or companies that do come to us in search of support, we will on a good many occasions either refer them to Vencap, on some occasions to the Alberta Opportunity Company, or on some other occasions we will attempt to suggest to them individuals that are looking for equity participation. We do liaison, but at the same time Vencap is a separate identity that is arm's length removed from the provincial government.

MR. CHAIRMAN: Thank you.

Member for Edmonton-Meadowlark, followed by the Member for Athabasca-Lac la Biche.

MR. MITCHELL: Thank you, Mr. Chairman. To the minister. I wonder if the minister could give us an indication of how the investments under AOC, under Vencap, under the various specific programs such as the Food Processing Development Centre, will be affected by his recent announcement that this government is no longer getting involved in subsidizing business?

MR. ELZINGA: I think it's important that one put those comments into the proper context. I indicated to the hon. Member for Calgary-Fish Creek that our universal programs or the programs that we do have in place under Vencap and the Alberta Opportunity Company will not be affected. It's the ad hoc programs that we have involved ourselves in in backstopping industry when we went through a severe economic downturn to make sure that we would have employment for Albertans - it's those types of programs that it is our desire to pull back on. Vencap and AOC will remain active participants.

MR. MITCHELL: My calculations over the last five years are that AOC has been subsidized by the Alberta government to the tune of \$50 million. Sorry, in fact, it's higher than that: it's to the tune of \$80 million, which is about 50 percent of the total loan that it has received from the Heritage Savings Trust Fund. Over that same period of time they would have paid probably about \$85 million to the Heritage Savings Trust Fund. Could the minister please tell us how it is that a company that is, therefore, de facto losing what it pays to the Heritage Savings Trust Fund, be expected to pay that? Doesn't it just inflate the earnings to the Heritage Savings Trust Fund and therefore isn't really proper accounting but is, in fact, quite circular accounting?

MR. ELZINGA: I'm going to ask Mr. Parker to help me with this, if he has any comments now. I've got a few closing comments, if it's agreeable, sir.

MR. PARKER: Okay. I assume that the figures you're talking about include the annual grant in support of small business, and this was put into effect - well, let me go back historically. Initially when we were established, we had funding that could be viewed as an equity base. As a result, there were no interest payments or charges that we were faced with. In 1979 the feeling was - and I think widespread - that AOC should be a vehicle to use funding from the Heritage Savings Trust Fund, and I think the rules for the trust fund are fairly clear as to what it lends, gets back, and gets in interest. As a result, our equity base was removed. So we didn't have any free money, and as you are aware, if you are lending, particularly in high risk, and you don't have an equity base, you cannot make any money. It's as simple as that.

Ultimately, in the early '80s, it became evident that this was creating a larger and larger problem, so it was agreed that a form of funding - this grant in support of small business - would be provided to AOC to at least partially compensate for the fact that it did not have an equity base, and we have been working on this basis since that time. Now, obviously, during the period from '82 to '86 the economy suffered greatly, and we along with every other lending institution suffered significant losses which accentuated the situation and deficit position that we found ourselves getting into. You go beyond that and we get

into venture capital at early stage, which is very high risk, then you have no return, and in the early years, as they say, the losers come home to roost early; the winners take a little longer.

So this is the background and the basis on which the funds you're talking about have been disbursed to us.

MR. ELZINGA: Let me share with the hon. member - and I would assume; if I'm assuming incorrectly, I'm sure he'll correct me. I'm assuming, too, that he also recognizes the benefits that flow through to the province. We recognize that at times there are losses, but there are also benefits as it relates to the economic well-being, the quality of life, and a number of other benefits that do accrue to the province, and that was part of the reason for the establishment of the Alberta Opportunity Company.

MR. MITCHELL: I accept the minister's point. I'm not saying that there aren't cases where the activities of the Alberta Opportunity Company should have been subsidized. I know that they've had successes and they've helped small businesses that I'm aware of, and that's excellent. But the point that I'm driving here is that I believe the government is trying to have its cake and eat it too. On the one hand, let's call it a program expenditure; let's not then turn around through some kind of convoluted accounting and say that it's also earnings to the Heritage Savings Trust Fund.

What I'd like to do is just have the minister concur with me that that observation of mine is correct: that in fact the Alberta Opportunity Company loses money; that it's subsidized for those losses by the General Revenue Fund; that it in turn pays money to the Alberta Heritage Savings Trust Fund, in which the Treasurer says, "Look at the earnings we're making," and then he turns around and pays it back into the Alberta Opportunity Company.

Could the minister please indicate that you either have your cake or you eat it; that is, you either have program funding or you have earnings to the Heritage Savings Trust Fund, but you don't have both of them?

MR. ELZINGA: I appreciate very much the thoughts of the hon. member, and I'm sure he would agree with me that those are more appropriately put to the Provincial Treasurer. I'm sure - at least there's no doubt in my mind - that he will put them to the Provincial Treasurer when he does appear, if he has not already.

MR. MITCHELL: On your behalf.

MR. TAYLOR: If we don't get a motion for adjournment.

MR. CHAIRMAN: What did I hear from the hon. Member for Westlock-Sturgeon? Was that a motion?

MR. TAYLOR: I said, "If we don't get a motion . . ."

MR. CHAIRMAN: Oh, sorry.

Member for Athabasca-Lac la Biche, followed by Member for Westlock-Sturgeon.

MR. TAYLOR: And mine won't be a motion.

MR. CARDINAL: Thank you, Mr. Chairman. I, too, would like to commend the minister and his staff for a very effective

economic diversification plan in Alberta. It's working well.

The Small Business Term Assistance Plan was established in 1986 to make fixed rate nine percent financing available to Alberta small businesses for a maximum term of 10 years. Loans were available for up to \$150,000 per small business for refinancing existing debt, making new purchases and extending lines of credit. The province maintains deposits with participating financial institutions equal to the amount of program loans they have outstanding.

I understand there are no new loans presently being offered. I also understand that up to March 31, '89, \$150 million was loaned out or guaranteed.

How many of these companies are still operating that took advantage of that program?

MR. ELZINGA: It's been pointed out to me by Mr. Roth that 12,500 businesses have made application under the program, and in excess of 63 percent of these loans have been out for a period of 10 years. I should share with the hon. member, too, that to date the percentage of loans that have come under for claim for a guarantee is less than 1 percent, a very small amount - .63 percent; less than 1 percent.

MR. CARDINAL: My first supplementary is: would you have an idea as to the number of jobs that would have been created through this particular program?

MR. ELZINGA: That is difficult to say. I would hazard a guess that what it has done, more than create, is maintain jobs within our provincial economy. As the hon. member is aware, over the last number of years the small business community has been responsible for 60 percent of the creation of jobs within our economy, and I'm sure that this program has played a large part in it, because it does offer them the security of financing at a fixed rate.

MR. CARDINAL: My final supplementary. I see the province maintains a deposit with the participating financial institutions. The interest gained from these deposits - where would that money go?

MR. ELZINGA: I understand - and I will look for a little counsel here too - there's an offset whereby we pay a percentage for processing, for administration and whatnot, of what we have on deposit. I'm not sure if my officials would have help for me here or not, but I will get the hon. member a more detailed response. But what we have done is put funds on deposit, and there is a percentage that we pay for the administration. So there is pretty well a saw-off except for those funds that we do pay on a percentage basis to the institutions.

MR. CHAIRMAN: Thank you.

The Member for Westlock-Sturgeon, followed by the Member for Calgary-Forest Lawn.

MR. TAYLOR: Thank you, Mr. Chairman. My questions - I will roam a bit - but the first one is on the rail hopper cars, of which we still have 994. Has any thought been given, in this day and age where the government is trying to liquidate assets they have to keep the debt down and so on, of being able to turn over these hopper cars to Canada's two railroads for money or a debenture or something like that?

MR. ELZINGA: To my knowledge, no, we haven't given that any consideration. In fact - and I stand to be corrected, too, by

our officials - there has been some suggestion in the past whereby we'd maybe increase the amount we do have to help offset some of the costs and to make sure that there are efficiencies in our systems. It's something that would be worth looking at, and I will look at that. But to date I don't believe that we have. No.

MR. TAYLOR: I was going to suggest, Mr. Chairman, that possibly in this day and age of restructuring transportation subsidies - and this is sort of an indirect one - we'd put a little heat on the federal government to give the railroads enough money to buy the rail cars back from us, and they'd go back to running a railroad and we'd get our money back. But it's just a suggestion we might make and a move.

That leads on to a second thing. It's with regard to the Prince Rupert terminal and also the Vencap board. What's our relationship as far as management input? Do we have an administrative representative on the board of directors of both? I guess it's not a board of directors of Prince Rupert Grain; it'd be a consortium administration pool or something. Do we have a direct representative on either one?

MR. ELZINGA: We do have, I believe, on Prince Rupert Grain. Our representative is Dr. Hugh Horner.

As it relates to Vencap, no, we do not have anybody on the board of directors. I'm happy to take the hon. member through some of the discussions we have had with Vencap though.

We are examining that possibility with Vencap. There are some downsides also to whether we should have a closer involvement with Vencap or not. We're presently going through that discussion with them as to whether we should possibly have a couple of appointees to their board, the downside being that then they are not quite as removed as they had been in the past from the affairs of the provincial government. There are positives and negatives to both aspects. I'm happy to share with the hon. member that I have a personal warmth to us appointing a couple of individuals to Vencap's board, because there is a substantial investment on behalf of the Alberta taxpayer in Vencap.

MR. TAYLOR: Possibly you could point out to them that the Alberta government has representatives on AEC, and they do very well. If Vencap should be as lucky . . .

MR. CHAIRMAN: Hon. member, could you move to your final supplementary?

MR. TAYLOR: These are all going to be motions - for posterity.

The other is the investment in pulp. We have Millar Western Industries; there's an investment in that pulp organization. Do we have any other direct investments in the five or so others outside of AOC - indirectly, I guess. Do we have any direct investments in any of the other pulp . . . Is that the only one?

MR. CHAIRMAN: Hon. member, if the Chair could just interrupt. Did you mean direct investments from the Heritage Savings Trust Fund? Because that would be the issue.

MR. TAYLOR: From AOC or from Vencap.

MR. CHAIRMAN: Oh, I understand. Fine, if that was your question.

MR. TAYLOR: Well, Millar Western, the way I understand it, is a direct investment. That's under you, though, isn't it? But that's a direct investment from the AHSTF?

MR. ELZINGA: That's a direct investment from the Alberta investment division of the heritage trust fund, which we administer.

MR. TAYLOR: That, plus AOC, plus Vencap - those three, which are really sort of under your aegis, if you lump them together. Do you have any other pulp investments? I don't mean the subcontractors and the little fellows. I mean the main pulp processors themselves. Is that the only company?

MR. ELZINGA: To my knowledge, no, sir, but I will check that out. I don't believe so.

MR. CHAIRMAN: Thank you, hon. member.

The Member for Calgary-Forest Lawn, followed by the Member for Edmonton-Avonmore.

MR. PASHAK: Thank you, Mr. Chairman.

Back to Vencap. Because of the nature of the way it's incorporated, it's outside the scope of the Auditor General, I believe, and I wonder if the minister could give us some idea as to how he ensures accountability for Vencap. Does he just rely on the company, or does his department do any audits of Vencap? In other words, how's the public's position protected with respect to Vencap?

MR. ELZINGA: Well, one would have to go back to the original agreement whereby there were certain commitments made. This is a loan given to Vencap. You know, there are the regular stipulations that are put into place. We do share in the profits, technology, and those. I indicated to the hon. member that that return has only proven to be about 5 percent. There are certain safeguards; I'm not just sure, but they would not be beyond the traditional scope of when a loan is offered. So there are certain exposures but there are also certain safeguards.

MR. PASHAK: I wonder if the minister would ever give any consideration to requiring a value-for-money audit looking for economy, efficiency, and effectiveness of any of these companies that are funded through the Alberta Heritage Savings Trust Fund, including Vencap and maybe AOC.

MR. ELZINGA: I'm sorry. I missed that. Could the hon. member . . .

MR. PASHAK: Has the minister ever given any consideration to requiring that value-for-money audits be conducted into any of these operations that receive Heritage Savings Trust Fund dollars that are under his jurisdiction, such as Vencap and AOC and maybe even loans like the loan to Millar Western and that sort of thing?

MR. ELZINGA: Well, the hon. member is referring to three different circumstances, and we do our level best. As it relates to Vencap, they are accountable to their own board of directors. They go through their regular procedure on a yearly basis whereby they do have the selection of the board of directors, and the management is accountable to the board of directors. As it relates to AOC, we just had a good discussion on that. We

recognize again that there are certain losses that are accrued there, but we feel that the overall benefit is substantial to the province. As it relates to Millar Western, again because of the specific circumstances we did involve ourselves in an investment through the Alberta heritage fund. If the member has any thought or any criticism as to the accounting that is involved there, I'm sure the Provincial Treasurer would appreciate his thoughts on it.

MR. PASHAK: I'll attempt to relay them to the Provincial Treasurer. I think I have them embodied in some of my recommendations; that we should look seriously at all levels of government in terms of asking for value-for-money audits.

In any event, with respect to Millar Western - in the light of all of these pulp mills that are in various planning stages for the province, I guess I'm asking the minister in hindsight to look at this issue. How does the minister justify provincial participation in projects of this kind?

MR. ELZINGA: If one looks at the development of this province itself, we've always had a lack of capital, and we've always searched areas other than within our own provincial borders for that capital in a very regulated way to help us develop the infrastructure and the industry within the province of Alberta, as long as there are significant benefits that do accrue to the individuals within the province. We feel that especially as it relates to Millar Western, there is a substantial benefit; the agreement provides for a return on the investment of up to 10 percent. There is an opportunity there, in the event that we wish, for us to take an equity share. There will be a substantial flow through to the residents of the province of Alberta. In some of our other involvements we've done so, and I quite frankly admit, with some hesitation at times - but they have played such a crucial role in the quality of life within this province. I think you'll find that within Alberta and within our Canadian way of life there has been that flexibility whereby governments have involved themselves to ensure that we would have stable economic growth and provide meaningful employment for the residents of the province.

MR. CHAIRMAN: Thank you.

The Member for Edmonton-Avonmore, followed by the Member for Ponoka-Rimbey.

MS M. LAING: Thank you. My questions are in regard to Vencap too. It's something of a mystery to me, so forgive me if the questions are elementary.

My understanding is that there was \$40 million invested by the shareholders and \$200 million by the Alberta Heritage Savings Trust Fund, but that we the province get back only 50 percent of the interest earned. I'm wondering what the justification is that the 80 percent interest party would only get 50 percent of the interest earned, particularly in view of the fact that as the \$200 million is paid off in installments that 50 percent of the interest earned will be reduced, as I read this, in the trust fund. Am I interpreting that correctly, and if that is the case, then how is that justified?

MR. ELZINGA: Let me point out to the hon. member that traditionally venture capital is patient capital. The returns are not necessarily to the degree that one would have in other investments, but Vencap pays approximately 50 percent of its pretax profits to the government in lieu of interest. As I

indicated earlier, that amounts to about 5 percent on our moneys invested. It is a loan to Vencap, which is a private venture company with their own board of directors. We are going through an analysis now internally as to whether we should offer greater direction to Vencap or not.

MS M. LAING: I've misunderstood in saying 50 percent is interest; it's pretax profits. But in the same vein, then, 50 percent of the pretax profits go to the shareholders, even though they have theoretically only 20 percent of the financial interest in the company. So that seems unfair, even given that in both cases we are risking money: they theirs, and we the public money. I guess I'm wondering why different rules apply.

MR. ELZINGA: That was part of the terms of the original deal when Vencap was established, and I would suggest that the reason why there was certain leniency as it related to the return was so that there would be greater involvement in the development of certain industries within the province which might otherwise not occur.

MS M. LAING: Okay. Then if that is in fact the case, and in fact they are given a financial benefit – the shareholders, the board of directors, whoever "they" are as opposed to the government and the people of Alberta – they nevertheless are the guiding force in the operation of Vencap, and I would ask: what kinds of guidelines do we as a government on behalf of the people of Alberta establish in terms of criteria for loans or loan guarantees given in terms of advancing funds to ensure that the projects funded diversify our economy, that they are environmentally safe, and that we get good jobs per dollar created? Who oversees that? Do we as a government have any way of monitoring that?

MR. ELZINGA: As it relates to Vencap, no, because as I've indicated earlier, it's a separate identity with arm's length from the government. We're examining as to whether we should have a closer involvement or not with them so that there will be some type of opportunity for us to offer direction, recognizing, though, that they are a separate entity. I'll go a bit beyond the terms of reference, if the chairman will allow, as it relates to our discussion here and the heritage trust fund. We do have a number of specific programs whereby we do have an opportunity for input, such as our export loan guarantee program and the capital loan guarantee program to the small business community, which go beyond the scope of what we're discussing today, but in those programs we do have latitude to offering direction.

MR. CHAIRMAN: Thank you.

Member for Ponoka-Rimbey, followed by Member for Calgary-Foothills.

MR. JONSON: Yes, Mr. Chairman. I have some questions with respect to the Alberta Opportunity Company. I'd like to start off, Mr. Chairman, by prefacing my remarks by saying that I think the Alberta Opportunity Company is fulfilling a very real need that's out there in terms of the development of small business in Alberta and has done a good job in that regard. However, I do have two or three questions that I'd like to pose.

First of all, just by way of illustration, during the past couple of years a review has been done with respect to the Alberta Agricultural Development Corporation and its policies with respect to lending, which are not, perhaps, exactly parallel to the

operations of AOC, but there are some crossover points. One of the things, Mr. Chairman, that was found there was that there was a problem that developed when AADC loaned to, in this case, beginning farmers without there being any significant equity base. Now the policies of AADC have been changed to provide for a certain percentage of the total value of the project which must be in the form of equity.

My question to the minister with respect to AOC is: is there a policy in place with respect to the percentage or amount of equity that a business owner or group of owners must have in a project when they are approved for funding through AOC?

MR. ELZINGA: Mr. Chairman, yes, there is, and to elaborate on that policy, I'll ask Mr. Parker to give the hon. member the details.

MR. PARKER: On any loan that we make, there has to be what is viewed as a reasonable investment by the shareholders. There isn't a set, specific percentage that is required, but generally speaking, it seldom goes below 20 percent of the total project. The reason for this is, as I said before in another context, that without a reasonable level of shareholders' investment, equity, patient capital, any minor downturn in the fortunes of the company can see it go under. It has to have something for a margin of error.

Now, there have been occasions from time to time – very seldom and on a very small scale – where a tradesman, for instance, will want to establish his business in a small town lacking his particular trade. He has his ticket and he has his tools and a little bit of money, and we put up the rest. Basically, that's a character loan that is based upon the individual himself. But in 99-plus percent of the cases the view is that if it takes 33 percent equity in order for the business to be viable and have a chance to succeed, then that's what we'll require. If they can do it for 25 percent or 20 percent and that's all they have, then we'll say: "Yes, that's fine. That will be sufficient." But they have to have that amount from two points of view: firstly, that the business has something to rely on and, secondly, that they've got a stake in it themselves so that if things go bad, they will work even harder because they have something to lose. That is essential in any business if at the first sign of a difficult time the people don't turn and hand you the keys and walk away.

MR. JONSON: Mr. Chairman, I guess one of the things that happens to anybody in business or in government who's doing anything is that there's always then going to be the chance of some criticism. But one area I've heard criticism of the operations of government, be it the joint federal/provincial tourism agreement or the joint federal/provincial agriculture processing agreement or AOC, is that there's a concern that an organization such as AOC should be loaning or assisting businesses which are creating new jobs and are in what might be called the area of production which does not compete in the retail sector. When AOC makes loans in the retail sector, there's always a concern about giving undue aid to one person versus another competitor.

How does AOC approach the problem of being able to justify loaning to one retailer in the same area of operation as another, say in a given town or small city or some area of the province? I can give you examples, if you wish.

MR. PARKER: That's a very good point, and it's one that's very difficult for us to deal with, although it is uppermost in our

minds as authorizers of loans and as members of the loans committee because there is nothing, in our view, that would be more unfair than to harm a taxpayer with his own tax dollars.

In any loan proposal that we get, we look at the marketplace, the area, the level of competition and, quite frankly, if there is competition, have to make a judgment whether that is unfair competition that we're going to be financing or, hopefully as is usually the case, is adding competition to an area that will not do harm to the existing business and will benefit the local citizens as well.

Certainly historically we get as much in the way of complaints and criticism from those we turn down because we have said, "No, there is sufficient competition; it would be improper of us to provide funding to you." In that case, then, we are told that this is ridiculous, that the survival of the fittest, et cetera, should take place, and give us the money. An example of that: we had an application a number of years ago from a small town in central Alberta for a fast-food outlet, a leading franchise, with the best location in town. There was no doubt that that would be an excellent business. We said no because there were seven other operations in that community, and from our point of view, at least four of them would fail with this individual coming in. We had a very significant amount of concern expressed to us.

On the other hand, we had an application in a town in northern Alberta where we said that we thought there would be undue competition, and we wouldn't do it. The fellow persisted, and we said, "All right; you go to that town where you want to go and get letters to us from your potential competitors who say it's all right for you to come in." To our great astonishment he did that and came back with letters. We lent him the money, and he's succeeding. So that's the type of approach that we take, obviously not to the same extent in every case, but I think it's very seldom that we get a serious complaint where someone's business is in jeopardy. We get a number of complaints from time to time from people who are, in effect, the only game in town, and they want to maintain that monopoly. But in the long run, they do stay in business after the competition is put in.

MR. JONSON: My final question on this topic, Mr. Chairman, is just a very straightforward one. I know that every time this group appears before us, they probably get the question; at least the AOC people do. There still are the expressions of concern that I think MLAs hear about: the rather lengthy turnaround time they experience when they apply to the Alberta Opportunity Company for loans. What is the average turnaround time right now for an application? How would that compare, assuming they qualify, to going to a commercial institution?

MR. PARKER: Okay. The average time the last time I saw it, which was as of the end of August, was approximately 30 days from receipt of information to approval. Now, in any loan process there's more than one segment. Once you get the approval, where it's a term loan, security is required, and it's another period of time until the funds are disbursed - until the guarantees are signed, the mortgages are in place, or the debentures are signed. So that is another factor which can be lumped in with the whole process. But once the loan is approved, then it's a matter of the applicant's lawyer and AOC's lawyer getting this together. Again, our research into this situation: in the overwhelming number of times when there is a significant amount of time taking place, it's the customer and his lawyer who have not responded to the requests and requirements that we have.

When you're talking about funding for a business, the turnaround time generally will be less if you're dealing with your banker, because for one thing you have been dealing with him for a number of years, he knows you, he already has a loan with you usually, he has security, whereas with us it's usually the first time, someone brand new we don't know, so it takes a while longer for us to make our assessment of the individual.

We had a study done about three years ago at the request of our board of directors to see what our customers thought of us, what lawyers, bankers, and so on thought of us. We did it in-house because we wanted to save money. The response came back that the lawyers and the bankers thought that we took too long, but our customers said we were great. We took this back to the board, and they pooh-poohed this and said, "This is self-serving; let's get an independent outsider." So we did get an independent outsider. The response came back that yes, for those that we approved loans for, they were not unhappy with the length of time, with the amount of work we required them to do. Because in the long run, by knowing their businesses better, by knowing what their forecasts were based upon that they had to provide to us, that took time, they were better businessmen and had a greater chance of success.

MR. CHAIRMAN: Thank you.

Member for Calgary-Foothills, followed by Member for Edmonton-Meadowlark.

MRS. BLACK: Thank you, Mr. Chairman. I'd like to go back to the Prince Rupert grain terminal and the rail hopper cars. I guess being a city person I'm a little confused on the issues here. When I look at the two, it appears as if we have about \$188 million invested in transportation and exporting of grain, between the two investments. Earlier today we talked about the economic viability of the Prince Rupert grain terminal being based on throughput and that we needed a larger volume of throughput to make it pay. Yet it seems as if we're collecting up through our hopper cars about 1.3 million tonnes of grain, and in the last four years we had approximately just over four million tonnes go through the terminal. When you look at the two projects, what really is the future viability of the two projects? Is there any hope of our investment being recovered from the two back into the heritage fund?

MR. ELZINGA: Well, we think there is opportunity, recognizing that there are always sides that we don't see to the issue. But a related issue and part of the reason is, I should point out to the hon. member, that last year the grain transportation agency itself recommended that an additional 8,000 cars would be required by the year 1992 to meet our export demands, so we have to have additional cars and inject greater efficiencies within our system. That is part of the reason, too, why we as a government have indicated an alteration to the method of payment, whereby we think there is need for greater efficiencies in our transportation system. I am open to suggestions from hon. members as to how we can do that.

It could be that Mr. Roth, who has been very instrumental in this entire area, has some thoughts.

MR. ROTH: Mr. Chairman, just to supplement. The hopper cars were added to the grain car fleet back a number of years ago when we were very short. They were put in by the province of Alberta, by Saskatchewan another thousand, and the federal government put in a number of cars as well. Those cars do not

return a revenue to the province nor do they to Saskatchewan or the federal government. They are just part of the grain-car fleet, and it was part of the solution of the time.

With respect to the grain terminal, it was originally projected at the time the loan was undertaken that the first five to seven years would be their difficult period. In fact, it's projected now that by 1994 they will start then making a profitable return.

MRS. BLACK: As a supplemental, then, and further to that, Mr. Roth: you expect that the market will pick up, and we'll be able to have some payments coming back. How do we compete on the same playing field with, say, the market out in B.C.? Is that our biggest competitor, Vancouver harbour area?

MR. ROTH: The grain distribution area covers just into Saskatchewan and from that point, in about Scott, Saskatchewan, flows westward primarily, though in certain cases where sales are made – say to Russia, where they like to take the sales out of the seaway – then we will have occasions where we do have grain from this westerly area move to the east simply to meet the grades of grain required. But primarily this area will have its grain moved to the west coast, either to Vancouver or to Prince Rupert.

MRS. BLACK: As a final supplemental: what market do we really service out of this Prince Rupert terminal?

MR. ROTH: The Chinese market is the main market that's being served there, also the Japanese market and other Pacific Rim markets as well. There is some small movement that goes through the Panama Canal into northern Africa, but that's a very small part.

MR. CHAIRMAN: Thank you.

Member for Edmonton-Meadowlark, followed by Member for Westlock-Sturgeon.

MR. MITCHELL: Thank you, Mr. Chairman. I'm interested in knowing the relationship between operating costs and the revenue of the Alberta Opportunity Company. It seems that the operating costs are very, very high. I wonder if the minister could tell us what number of staff are hired and working for the Alberta Opportunity Company.

MR. ELZINGA: If it's agreeable to the hon. member, I'll just ask Mr. Parker to give him those details.

MR. PARKER: At the moment we have approximately 120, 125 people working for AOC. This has grown quite substantially during the past two and a half years because we've had three new divisions added to AOC's operations. We've added a venture capital division, a seed capital division, and a conference division. These have accounted for probably 20 to 25 people. Beyond this we have a consulting division, which provides consulting advice on various areas of business operations to our own customers. We don't compete in the market with the private sector. But all of these have grown over the past number of years. In fact, I think we have been at fairly close to steady, other than these additional divisions which we have put into place and the growth of the consulting end of things, for five or six years.

MR. MITCHELL: I wonder if the minister or his staff could

tell us how many loans are on the books now. How many, plus venture capital, seed capital, investments are actually on the books now? How many individual loans, and how many are processed? That information isn't in the most recent annual report.

MR. PARKER: If I may. We have, give or take three or four, 1,700 loans on the books at the moment. That has stayed steady for about five years due to a number of factors. We've had very significant early prepayments of our loans, probably 500 accounts in excess of \$50 million during the past five years. So as fast as they're being prepaid and regularly paid, they have been put on the books. It's only been during the past six months that the level has increased from slightly above 1,600 – 1,625 up to 1,700. It looks as though it is growing again.

In regard to venture capital we have approved 36 investments. Five have been canceled; 31 of them are still in effect, to 26 companies – this in a period of two and a half years, which compared to others in the venture capital field is quite a significant number because, as you're likely aware, the number of deals that venture capital companies do is very small compared to lending operations.

In our seed capital division we opened the doors August 1. We got our premises. We hired some staff. We started figuring out what to do and how to do it. Since that time we've had approximately 400 inquiries, 50 applications. Three have been approved to this date, and there are another 40 business plans that are being given serious consideration by our staff.

MR. MITCHELL: Just to clarify that – I'd rather not use this as my question, but what was that you said? How many loan applications came through? You just said that.

MR. PARKER: For the seed capital?

MR. MITCHELL: Well, no, for the loans.

MR. PARKER: Okay. For loans in fiscal 1989 we received and dealt with 995 applications. We had in excess of 10,000 inquiries in our various branches. Of those 995, 347 were approved, which is a little deceiving in that probably another 10 to 15 percent above that had been approved but were ultimately canceled. But we deal in our statistics in net figures. If the loan is approved and subsequently canceled, we strike it off the approval list. And that was for the \$34 million.

MR. MITCHELL: Just to follow that up then. What it looks like to me is that on the loan side you have – assuming that the consultants deal with those people and would assist them in building a business that can pay the loans off, so they're related to the success of those loan approvals – 100 people working on 1,700 on the books and about a thousand applications, which means that each individual, on average, processes only 10 applications a year and reviews and works with only 17 loans a year. So it seems that when I look at \$5 million in salaries against real earned income, revenue of \$15 million, there's just an awful lot of people not doing a great deal. But, you know, I'm being aggressive.

MR. PARKER: Oh, well, let me clarify things for you. First of all, we have one division that we haven't talked about, our support services, which includes our consultants. The consultants, as I said before, work with the customers that we have.

We also have our special debts people who are working to minimize write-offs and collect the moneys outstanding to us. You have an administrative staff. You have a lending staff. The lending staff is comprised of approximately 27 or 28 loans officers who handle these 1,700 accounts. There are managers in most of the branches, and in the smaller branches they look after some of the loans as well. But beyond that then you have your venture capital and seed capital and our conference division. The actual people involved in the lending division who are the front-line people doing the work are 27, plus their managers. So you take another 11 people. Under 40 people are doing these and administering these accounts, whereas other areas of the company operations deal with other matters that don't relate to the lending.

MR. TAYLOR: Mr. Chairman, my question's also - while we have you warmed up, now we can continue on the Alberta Opportunity Company. I'm a little puzzled how you put into your revenue. You have interest of \$14 million in there, then you have a grant from the province of Alberta for the assistance of small businesses, \$11.8 million. That's on page 19. Now, I can see it going into revenue if that grant was given to AOC, but it's given to you to give to small business, I gather. So shouldn't - the only interest revenue you receive is the administration of it? By putting it in there, you cut your loss by \$12 million.

MR. PARKER: May I answer? This has been discussed at great length, and the Auditor General . . . They do our books. This is our statement, but it's in accordance with their practice.

MR. TAYLOR: It's the practice of the Auditor General then.

MR. PARKER: Yes.

MR. TAYLOR: I just find it puzzling that you take a grant that's . . . It's like me putting into income somebody's gift to pass on to someone else. I don't see how, unless you take it out again. But it's gone in and doesn't come out. But anyhow we'll have that another day.

Let's jump to your notes on page 22.

MR. MITCHELL: Tomorrow with the Treasurer.

MR. TAYLOR: We'll go after the Treasurer, because it's highly imaginative bookkeeping. The kind that when I was in the private sector I might not be worried about staying out of jail for, but nevertheless we'll go on.

MR. CHAIRMAN: The other supplementary.

MR. TAYLOR: Note 6, page 22, shareholder loans. There were none in '88 and last year there were \$150,000, I gather now. Could you explain more? Is that a loan to some shareholder who happens to be in business, or is it a stock option type of thing? What are those shareholder loans?

MR. PARKER: Okay. This is a case where we're a shareholder. This is part of our venture capital division, and when we put our money out, it's in the form of common shares or preferred and, in some cases, convertible debentures. There are occasions when as a shareholder, along with other shareholders, we want to contribute some more, for instance, for a short period of time. Then the best way to do it is, in this case, by way of a share-

holder's loan. We, AOC, shareholder, and XYZ company may have \$500,000 in along with two or three others each having \$500,000 in. There's a need for more funding pending some activity.

MR. TAYLOR: Oh, I see. The loan goes to the shareholder, who in turn puts it in the business, is that it?

MR. PARKER: No, no. We, AOC, are the shareholder, and we made the loan, so it's on our investee company's books. It's a loan from the shareholder.

MR. TAYLOR: It had nothing to do with stock options or anything in the company?

MR. PARKER: No.

MR. TAYLOR: I see.

Last supplemental. I hope I get another crack at it before Lacombe wakes up and moves on me, but I have one more question. It was to do with the research. You're doing some transportation . . .

You have to slip one in quickly now and again.

You have the grain cars, and a while back you were doing something on coal transportation and the slurry pipelines and unit trains and that. Is that type of research still ongoing somewhere in this fund?

MR. ELZINGA: That research is still going on, but it's under the Department of Energy, under their ongoing budgetary items. There's nothing in here.

MR. CHAIRMAN: Thank you.

The hon. Member for Calgary-Fish Creek.

MR. PAYNE: Mr. Chairman, I'd like once again to return to AOC's track record and evaluate it perhaps from a slightly different perspective. I'm not after precise numbers. I'm after, I guess, proportions. Roughly how many companies have been assisted by AOC? What proportion of those are still operating successfully, and what proportion have failed despite the AOC assistance?

MR. PARKER: Okay. Approximately 5,500 have received loans from AOC since its inception. Of those, slightly less than 12 percent have gone into receivership and disappeared from the scene - that we're aware of. Now, once they pay us out, we don't track them, and I'm sure some of those have gone down. In our view, 88 percent approximately, or a little more than that, have had funds from AOC and continued to operate up until now or up until they had paid us out.

MR. PAYNE: Well, that's a useful piece of information, Mr. Chairman.

Now, last year, as I recall, the minister's predecessor Mr. Shaben said that he was undertaking a review of AOC, and that review was going to include discussions with the board of directors and people funded by AOC and people who have been turned down by AOC. Apparently, the review would look at how to improve AOC's general effectiveness "within the current market conditions" - I think that's the quote from last year's transcript - and "what the demands are for services that can be provided by an organization like AOC." That was quoting from

page 64 of last year's transcript. My question to the minister is: has that review been completed, and if so, what did it uncover, or what conclusions have been drawn from it?

MR. ELZINGA: I'm going to again ask Mr. Parker to elaborate to a greater extent than what I could, but yes that review has been done and completed. Price Waterhouse was involved in that review. Some alterations have been made, and it related to some things as - I was going to say as small, but "small" is not the right word - but items as to the location of where Alberta Opportunity Company should continue on or be moved to, things such as personnel and the levels of payment to them. We have followed through on some of the recommendations. We are going to continue with the functioning of AOC in Ponoka. We have given greater flexibility to the chief operating officer, being Mr. Parker, as to his residence and a few other things.

But if you'd like to elaborate, sir.

MR. PARKER: Uh huh. I'd be happy to. Yes, Price Waterhouse in the summer of 1988 were requested to do a complete study of AOC - its methods of operations, what it's doing, and where it should go - and come up with some recommendations. In late 1988 this study was completed, and in a nutshell they indicated that they felt the company was performing effectively, was well managed, and was contributing to the growth and diversification of the province. It did indicate that some further activities should take place, and the major recommendation was the addition of the seed capital division to assist in technology transfer out of our universities, research facilities, the workbenches of Albertans with new and good ideas. As a result of that and some suggestions that Mr. Elzinga has mentioned, most of their suggestions were put into place, the major one being that the seed capital division was established. As I indicated earlier, we have had what we consider a phenomenal response to it, and we're very pleased that we did get this established, because we think it's meeting a real need.

MR. PAYNE: Mr. Chairman, if the Price Waterhouse report is, in fact, a public document, I wonder if members of the committee could be provided with a copy of it or at least an executive summary of it.

MR. ELZINGA: I should indicate to the hon. member that I'd be happy to examine that - it was an internal document for the Alberta Opportunity Company itself - if the hon. member would allow me some latitude before giving him a commitment. I should indicate to the hon. member, too, as a supplement to the information as it relates to the review process: in the event that an individual is refused or he has some concern with the process of his loan - we do receive some inquiries in our office - AOC has been kind enough to further review them when we've referred them back to them. Again, with AOC the minister's office or the government does not interfere with what we consider an excellent process of reviewing who should receive funding and who should not, because we want to make sure that it is done on a sound financial basis without any political interference, and that is a process that we have followed.

MR. CHAIRMAN: Thank you.
Member for Edmonton-Meadowlark.

MR. MITCHELL: Thank you, Mr. Chairman. I'm still concerned about the operating costs of AOC, and I'm wondering

whether the minister could give us an idea of how he would view combining AOC and Treasury Branch offices to accomplish some economies of scale. It seems to me that the two groups are probably doing more or less the same thing, and would there be some efficiencies in that?

MR. ELZINGA: I would be happy to look at something like that, but as the hon. member is aware, that would be an overall government decision rather than an individual decision made by an individual in a specific portfolio. We have felt - and it has been substantiated too, and I'm glad it's been drawn to light in the Price Waterhouse study - whereby AOC has added to the diversification of the province. If there are certain efficiencies and the service and the intent are not diminished in any way, it would be worth while examining.

MR. MITCHELL: Great. Thank you.

My second question concerns the payment of \$149,000 to 14 directors, which would work out to about \$10,500 a year per director. I wonder if the minister could indicate to us - these are the directors of AOC - what a director would do to earn \$10,500 a year and how often they meet and for how long?

MR. ELZINGA: The amount for the contribution that they do make is not a large amount. They meet at least once a month, sometimes twice, and there is a considerable amount of preparation. I again will ask Mr. Parker to elaborate because it's my understanding that they review if not all, the majority of the loans that go through AOC and play a very instrumental part in that they are selected from a broad spectrum of backgrounds throughout the province of Alberta. But I'll ask Mr. Parker to elaborate too. I've met with them on occasion. I couldn't speak highly enough of the work they do perform for us.

MR. PARKER: As far as the duties of a director are concerned, the major function is the monthly or semimonthly meetings, depending on the workload, where they do a number of things. They review the authorizations that have been made in-house by the staff and by loans committees. They also get quite a substantial package of information with the loan reports and venture reports that they are to deal with at the board meeting. These are, I would say, on average 20-page reports about yea by yea plus financial attachments and so on. They've got to read and understand each of those. We can have anywhere from - well, if we don't have any, we don't have a meeting obviously - one to seven of these reports, which are in many cases very complex and technical and require a lot of time to digest and to understand. So not only are they there for the meeting, but they've got to spend one and sometimes two days of their time on weekends or in the evenings getting prepared for these meetings.

There are also committees as with any board: audit and budget committees, public relations committees, compensation committees, all of which meet. So that adds up to probably, I would say historically, 20 to 25 meeting days per year when you include our annual policy conference, and when you add to that the preparation time, it's a very significant amount of time by the individuals involved.

MR. MITCHELL: Back to the question of the Millar Western pulp mill. I wonder whether the department was aware of the environmental risks involved in this plant, particularly in light of a recently released report on the water quality, on the biological

oxygen deficiency in the Athabasca River at the time that the loan was made; whether they have assessed the potential impact now of this latest report on the need to cut back production in that mill, perhaps shut the mill down for certain periods of the winter when there isn't enough oxygen in the river; and how they have assessed that against its ability to pay the \$120 million loan that we have. I guess my question is: did you have the information before you gave the loan? If not, now you have it; what are you going to do? Two, if you did, did you assess it in your giving of the loan?

MR. ELZINGA: I'm sure the hon. member's aware that there is a process that they had to go through prior to receiving approval. Since the documentation of this took place somewhat prior to my time, I'm going to ask Mr. Roth to give him the entire detail.

MR. ROTH: Mr. Chairman, the negotiations on this particular facility occurred back through 1986-87. At that time, as you realize, this was one of the first mills that was being brought in. This particular technology is a benign technology in comparison, much more people friendly than the other technologies that have been in place. This particular plant had to get its approvals from the Department of the Environment before it could proceed with construction.

MR. CHAIRMAN: Thank you.
Member for Westlock-Sturgeon.

MR. TAYLOR: Thank you, Mr. Chairman. Back a little bit again to the terminals at Prince Rupert. Is there any first refusal or any tie against the government's share if the government would want to sell it or dispose of it to another group than those who are already in the consortium? Does the government have to sell its interest, if it wants to get out, back to the consortium members?

MR. ROTH: Mr. Chairman, the government does not have a share interest in the Prince Rupert grain terminal. It's simply a mortgage that is placed against the facility.

MR. TAYLOR: Has the mortgage any convertibility feature in case profitability of the terminal takes off? Can the mortgage be converted to equity?

MR. ROTH: No, there's no provision for it to be converted to equity to my recollection.

MR. TAYLOR: This has to do also with grain transportation, Mr. Chairman. Back to the grain cars; it bothers me a little bit there. Could you inform me a little bit more on how they're handled? Do they pay us a management fee, or do we have to pay for repairs, or do they have to give them back to us, or what? In other words, are they just a gift that we have to maintain, or do they maintain them and can we charge them a user fee or a rental?

MR. ROTH: Mr. Chairman, the cars are being maintained by both CN and CP. They've been split according to the Grain Transportation Authority's allocation of cars, which is almost 50-50 between the two, CN and CP. We are responsible for the repainting of them, but the normal running maintenance of the cars is attributable to the two rail companies. The cars are put

into the grain fleet as a long-term gift, if you like, on behalf of the government. It's a return, really, to western Canadian and specifically Alberta grain producers; that's the reason for having done that.

MR. TAYLOR: I like that repainting. If the government changes, we can make them red and white, then, can we?

MR. ROTH: No comment.

MR. CHAIRMAN: Thank you.
The Member for Edmonton-Meadowlark.

MR. MITCHELL: Thank you, Mr. Chairman. I would like to go back to the environmental consequences of this investment in Millar Western, to the department's assessment of the ability of this company to pay the loan. It may be more "benign," to respond to Mr. Roth's point, but ironically and unfortunately the one major environmental problem that the chemithermomechanical process has is a reduction of the biological oxygen demand component of the river, and the recent report indicates that for three months of the year the Athabasca River is already below acceptable levels for the survival of fish. It seems to me that therefore there is a tremendous dilemma facing this government, exacerbated by the fact that they want to build more plants. On the one hand, I think there's tremendous pressure for them to shut down those plants for a certain period of time. At the same time, if they do, Millar Western is not going to be able to pay back its loan. Could the minister please indicate whether his department, who are administering this program, has assessed and whether they have downgraded their expectations of this company's ability to pay back that loan, based on that new environmental information?

MR. ELZINGA: No, we haven't. I should say no, we haven't downgraded the opportunity for them to repay the loan. If the hon. member would like, I'm happy to give him the repayment schedule and whatnot also, for his information. The loan must be repaid in full at the end of 15 years, and the repayment scheme requires Millar Western to pay 80 percent of the cash flow to the Alberta government for the first 10 years, until the outstanding debt is repaid.

MR. MITCHELL: I wonder whether the minister could make this commitment: that he would write to the Minister of the Environment and ask him whether the minister will be ensuring the biological oxygen levels in the river by requiring Millar Western to shut that plant down for periods during the winter and whether he would then release to us that information and his assessment of Millar Western's ability to pay that loan back as a result.

MR. CHAIRMAN: Hon. member, I really believe that question should have been directed to the Minister of the Environment and quite likely was; I don't recall. But I'm not sure that this would be within the jurisdiction of this minister.

MR. MITCHELL: Mr. Chairman, I certainly appreciate your concern that we would wander. But I'm also very concerned that here's \$120 million committed to a company who may be – and in some senses, we would hope, given the environmental consequences of their continuing year-round – restricted in their ability to pay off a loan that is a major commitment on the part

of the Heritage Savings Trust Fund. What I want to hear from the minister is that he's done something to consider that contingency, what he's going to do, how they're going to help that company, and whether he's talked to the Minister of the Environment. All these things are reasonable things to do, it would seem to me.

MR. CHAIRMAN: Hon. member, I believe that the minister certainly has the loan as a prime concern and the repayment of it. In the event that it appears there will be a default, I'm sure the minister will move on it. But I'm not sure that the minister has the right to interfere directly in the affairs of the Department of the Environment. Your question, I believe, should more properly be directed there.

MR. MITCHELL: Okay, I'll ask a very specific question then. In the course of administering this loan with Millar Western, has the minister or will the minister write to the Department of the Environment to determine what their plans are for maybe shutting down that firm for certain periods of time during the winter?

MR. ELZINGA: Well, let me leave the hon. member with the assurances that this firm has met all the high environmental standards that we do have within the province of Alberta. It is projected that they will continue to meet the high environmental standards that we do have, because those standards are going to be maintained at the level that we presently have.

MR. CHAIRMAN: Thank you.

Do you have a final supplementary, hon. member, or have you already had . . .

MR. MITCHELL: No, I haven't. I've got two to . . .

MR. CHAIRMAN: This will be your final supplementary coming on.

MR. MITCHELL: Okay. I wonder whether the minister could indicate whether his department, in a manner parallel to the process that would have gone on to assess the need and request the loan for the Millar Western program, is undertaking the same kind of initiative to assess the need and perhaps design a request for funding from the Heritage Savings Trust Fund to create a recycled-paper plant in this province, to at least parallel the initiative they have taken with the Millar Western plant.

MR. ELZINGA: I'm happy to share with the hon. member that we are internally, in conjunction with the Department of the Environment, looking at some type of incentives to offer to all of the recycling industry. As the hon. member is aware, we do have a substantial recycling industry within the province right now. We're hopeful that we can expand that, but not directly from the heritage trust fund. We are looking at certain incentives, and we are working very closely with the Department of the Environment so that we can involve ourselves to a greater degree on a sound economic basis in the recycling industry.

MR. CHAIRMAN: Thank you.

The Member for Westlock-Sturgeon.

MR. TAYLOR: Yes, Mr. Chairman. Thank you again for another opportunity. This is with regard to appointments in

AOC, just one of them. I notice in looking over the board there was one female. Yet bearing in mind that the Alberta Opportunity Company, I suspect, is loaning . . . As the ratios would show, there are supposed to be actually as many or more women involved in small business ownership now than there are men, yet we have only one woman on the board. Are there any thoughts, as the normal progression of retirements and moves and whatever else goes on, to try to increase the number of directors that are female on the board?

MR. ELZINGA: That's a good point. I should indicate to the hon. member that there are two women on the board of directors. We just recently made two additional appointments, one of which was a woman. So we are attempting to increase that ratio.

MR. TAYLOR: Thank you.

The other is just a thought, but I wasn't quite happy with the way the government's representation is on the management of the terminal at Prince Rupert. I think it should possibly be more direct. Dr. Horner is in business; in fact, have you checked whether or not there would be any conflict of interest because Dr. Horner has certainly exercised his own freedom to get in other grain businesses? There's a recent oat processing, in which the government is loaning some money or granting some money. Have you looked at any possible conflict of interest there?

MR. ELZINGA: Yes. We've examined it, and we haven't found any conflict of interest to be evident. If the hon. member is aware of any or if he would like to point some out, I'm happy to examine it further.

MR. TAYLOR: My next question, the third one. This is leaping about, sort of taking a basket and cleaning everything up at the end here. Bralorne Resources was one of our investments a year or two back, and I don't see it appearing anywhere. Did it get transferred somehow, or did they liquidate? About three years ago we bought some debentures, or it might have been convertible preferreds, in Bralorne Resources.

MR. ELZINGA: I'll have to follow that through for the hon. member. I'm not sure myself. If it is a couple of years old, I'm sure the hon. member can understand. But if Terry would just make a note, we'll follow it through, and I'll get a note back to you, Mr. Taylor.

MR. CHAIRMAN: The Member for Edmonton-Meadowlark.

MR. MITCHELL: Thank you, Mr. Chairman. To pursue my colleague's question about the nature of appointments to the AOC. With Mr. Roth leaving - and we're sorry to see him go, and we wish him well - I wonder what steps the minister will be taking to ensure that female candidates will be asked to apply for a job, if they haven't already, and what process will be undertaken, not to give them an unfair advantage by any means but to ensure that they are given a fair chance to assume that deputy minister's position.

MR. ELZINGA: I appreciate very much the hon. member's question. I have great difficulty determining how it relates to the discussion that is presently before us.

MR. CHAIRMAN: The Chair is having a problem with that as well, hon. member. I think we're starting to stretch a little. I'm sure the minister is going to have an open competition, and we'll leave it at that. [interjection] Do you have a further supplementary?

MR. MITCHELL: I do. I accept the point, and I really appreciate that it wasn't the Member for Lacombe that had to make it.

My second question relates to the minister's information concerning announcements on the recycling industry and so on. I wonder whether he could give us a time frame as to when those announcements would be made.

MR. ELZINGA: That's somewhat difficult in that we're looking at some type of financial incentives within our department, and the Department of the Environment is looking at enhancing the environment itself. The part on behalf of the Department of the Environment will probably take longer than what ours would, and because there is interdepartmental play here, forgive me if I don't give the hon. member any definite answers. But I would hope - and I want to be rather careful here because I know after this time period elapses the hon. member will be . . .

MR. MITCHELL: Just writing down the press conference date.

MR. ELZINGA: Yeah.

Well, I hope the hon. member will grant me certain latitudes as we do work it through, but I don't have a definite time period.

MR. MITCHELL: Finally, this is sort of a culmination of observations and so on today, and it's not to be critical of what AOC does, because I'm not. But I am concerned that when you look at the books of Alberta Opportunity Company, it is very, very difficult to understand how we justify it being a separate company, because it does program expenditures, by and large, yet it doesn't have any hope of ever covering its expenditures without direct grants from the government, that it's lost as much as it's paid out on its debenture to the Heritage Savings Trust Fund just in the last five years. In fact, what it comes down to is just a duplication of bureaucracy. Would it not be more efficient and less misleading in terms of income to the heritage trust fund to simply subsume it under the operations of the department, get that debenture out of there, or otherwise in effect what we're doing - and I believe this is what, in effect, we're doing - is that the government of Alberta through the heritage trust fund has loaned itself \$163 million to do program expenditures. De facto, this is not a company; it is an extension of the department. Could the minister please tell us why we keep calling it a company?

MR. ELZINGA: I'm sure the hon. member will acknowledge that his first suggestion was that we wrap it with the Treasury Branches. His second was to put it within our department. We feel in both suggestions that there is a very worthwhile role for the Alberta Opportunity Company to play because it is not a banking institution. It is more a lender of last resort, whereby there is a greater, thorough analysis done on individuals seeking support. I'm hesitant to accept your suggestion, too, whereby it come under our department, because we have such great respect for the independent viewpoint they have taken. As I indicated earlier to members, individuals who write me, we will refer it

again to the Alberta Opportunity Company, but in no way will we interfere. I think it's important that we don't have that interference, but I'm willing to take under advisement the suggestions.

Again, the hon. member is aware, especially as it relates to his suggestion of combining the two, the Treasury Branches and the Alberta Opportunity Company, that it's not something I can do; it's a government decision. But in the event that that recommendation was forthcoming, I would be inclined to speak against it, because the mandates and the terms of reference for the Treasury Branches and the Alberta Opportunity Company are different.

MR. CHAIRMAN: Member for Westlock-Sturgeon.

MR. TAYLOR: Yes, Mr. Chairman. With respect to the possibility of the taxpayers under AOC financing a company in town that's competing with the companies already there, I think the staff and the minister answered that they are watching that as closely as possible. But I did have the case - and I got very little sympathy from AOC, I thought - where a bakery was put out of business, in Hinton I think it was, because a second bakery came in, was financed by AOC, and was able to undercut the first one. Would the minister consider that in cases where the error has been made - you didn't realize that by financing business A, it was putting business B in a problem. Why don't we then just go ahead and loan business B the same amount we loaned business A rather than saying: "Enshallah: it's in the lap of the gods. It happened, and that's it"?

MR. ELZINGA: In response to the hon. member, it wasn't under the Alberta Opportunity Company that that bakery experienced difficulties; it was a grant that was given through the nutritive processing. It was a combined federal/provincial granting authority that did give money to a bakery, so it's rather difficult for me to respond as it related to Alberta Opportunity Company when there is no correlation between what the hon. member suggested.

MR. CHAIRMAN: Yes, do you have a supplementary, hon. member? Our time is running short.

MR. TAYLOR: Okay, I just want to stay on this same issue. Where that does happen, would AOC give consideration to loaning to keep the playing field level then?

MR. ELZINGA: Well, that's somewhat hypothetical. I can leave the hon. member the assurance, from the experience that I've had with the Alberta Opportunity Company, that they will give full consideration to every proposal that is presented to them.

MR. CHAIRMAN: Thank you, hon. member. Our time has just about expired.

Prior to closing the meeting, I would like to make a comment on the question that the Member for Westlock-Sturgeon put to the Chair when we opened the meeting, having to do with a ruling on accepting a motion for adjournment when there were still questions. The Chair assumes that that question arose because of the incidents that took place in the meeting this morning. To clarify that, I should make the member aware that I have here in front of me the list of speakers that the Chair maintains during any meeting. It turns out that the Member

for Calgary-Foothills was the last speaker on the list at that time that I had noted. The list is here for the member to peruse. Based on that, when the Member for Calgary-Foothills put forth a motion for adjournment, there were no more questions. It's not possible for the chairman to read the minds of members who may have questions that they yet want to put forward, so I can only go by those that are on the list. Based on that, the Chair accepted the motion for adjournment.

Now, if we're going to talk about the Standing Orders as it pertains to committees, I would refer the member to Standing Order 18 and others that tell us we cannot debate motions for adjournment and so on. For the situation that took place today, that's the clarification on it, and I would now like to move to . . .

MR. MITCHELL: Point of order. Mr. Chairman, then are you saying that, one, as long as there's another name on the list, you will not accept a motion for adjournment until 4 o'clock? Two, I would like to clarify that in fact we didn't just have our hands up; we told you we had more questions during that debate, and in fact, I think that the motion was made immediately that I finished my questions. I had my hand up, but you didn't recognize it.

MR. CHAIRMAN: That may well be, hon. member, but the hon. Member for Calgary-Foothills was the last one on the

speakers' list. She put forth her motion for adjournment prior to the Chair having an opportunity to acknowledge you. Based on that, the Chair was bound to accept her motion for adjournment. I understand what you're saying, but under those circumstances the Chair really had no alternative but to accept the motion for adjournment.

MR. MITCHELL: But you are saying that as long as we are on that list, they cannot adjourn? You will not accept a motion for adjournment as long as there is another name on that list to ask questions? That's what you said.

MR. CHAIRMAN: I'm speaking to the issue of what took place this morning, to clarify that to the Member for Westlock-Sturgeon, and then I'm referring members to Standing Orders for other clarification.

Now, is the hon. minister gone? I would like to take the opportunity to thank the hon. minister in his absence and his officials for coming before the committee. We appreciate them coming and the forthright answers that they gave. I now would entertain a motion for adjournment from the Member for Ponoka-Rimbey.

[The committee adjourned at 4:02 p.m.]