[Chairman: Mr. Pashak] [10 a.m.]

MR. CHAIRMAN: I'll call Public Accounts Committee to order.

The first item on the agenda would be the approval of the minutes of August 13, 1986. Could I have a motion to approve these? So moved by Mr. Brassard. Agreed? Agreed.

I'd like to introduce the Hon. Larry Shaben to you. He's the minister of economic development.

MR. SHABEN: Thank you, Chairman. If I may, I'd like to introduce the individuals with me. I think most of you know them, but on my right is Dallas Gendall, deputy minister, development and trade; on my immediate left, Clarence Roth, deputy minister, planning and services; and next to Clarence is Roy Parker, managing director, Alberta Opportunity Company.

MR. CHAIRMAN: May I ask you to do that more slowly, please, just in case people want to get the names.

MR. SHABEN: Dallas Gendall, deputy minister, development and trade; Clarence Roth, deputy minister, planning and services; and Roy Parker, managing director, Alberta Opportunity Company.

MR. CHAIRMAN: The meeting is now open for questions on matters that relate. I'll make a list of names.

MR. JONSON: Mr. Chairman, one of the areas of the department that I'd like to pose a question on is the operation of the Alberta Opportunity Company. There's been some questioning, some inquiries, into certain aspects of what seems to be implied in the financial statements. I wonder if the minister or perhaps Mr. Parker could comment on the reason for the Alberta Opportunity Company requiring a staff, I believe, of somewhere in the neighbourhood of 95 to 100 people to administer a portfolio of about 1,500 accounts. Is this a normal ratio of staff to commercial accounts? Is that number of people required? Could that be elaborated on, please?

MR. SHABEN: Mr. Chairman, I'll initially respond to Mr. Jonson. First of all, I'd like to say that I think it's fairly important to his constituency in that the head offices of Alberta Opportunity Company are located there. But with respect to the staffing levels, Alberta Opportunity Company is a unique financial organization. All of us have heard, in terms of a description of its history, that it's a lender of last resort, which means that the inquiries and the clients that the corporation deals with are those that have been refused by other lending institutions. In the course of a year, the Alberta Opportunity Company will get as many as 10,000 inquiries, and the fact that the corporation has offices throughout the province so that it's readily accessible to the business community requires additional staff.

One of the principles that was established when this company was put into place was that it would be accessible throughout the entire province. The other principle was that it was to provide an opportunity for businesses, not just in the major centres but particularly in the smaller centres that didn't have access to the variety of financial institutions that were available in, say, Edmonton or Calgary or the major centres, to have that access available. So that staffing is required to meet the provincewide mandate that was established for the company.

There's a lot of time spent by staff, loans officers, in working with clients with the specific applications that are received, and the specific applications would total in the neighbourhood of 1,000 in a year. Because the nature of the applications are ones that have been refused by conventional institutions, a great deal of time and effort must go into the examining, the workups, and the consultation with the businesses. In addition, the staff in the company works with businessmen who don't have business relationships with the Alberta Opportunity Company. So basically the reason for the high staffing levels is the nature of the company.

MR. JONSON: A supplementary question, Mr. Chairman. Does the Alberta Opportunity Company in its operations pass any administrative costs on to customers?

MR. SHABEN: No. The costs are absorbed generally in the administration budget of the corporation. That's the part that I was referring to that is very expensive. I'm not aware of — there may be rare cases where some costs are passed on to clients, and I'll ask Mr. Parker whether those cases exist. I think there have been where a company has applied for, say, the third time for the same credit and not exercised the credit on the first two occasions. The Alberta Opportunity Company may charge them a fee because of the repeat type of activity that they've had to undertake as a result of that client coming back three times with the same application. But other than that, the costs are absorbed in the administration budget of the company.

MR. JONSON: Maybe one other question, a final supplementary, Mr. Chairman. I'm aware that there may be a similar type of government operation in, I think, Ontario; perhaps there is in other provinces. What might be the comparative staffing ratios or the comparative administrative costs with a similar type of organization in other provinces? Is that monitored? Do they make any of those types of comparisons just to see that their operation is — I don't know if the term is "competitive," but let's say in line with what other people are able to do the same type of job with?

MR. SHABEN: Chairman, I'd have to do a little checking with respect to comparisons with other lending institutions, but my general information is that the Alberta Opportunity Company, in terms of the manner in which it delivers the programs — the success rate of the businesses that apply for funds runs at close to 90 percent — is probably the most successful provincially established lending institution of its kind in Canada. I've done some comparisons with Ontario and Manitoba, and Alberta Opportunity Company stands out. As a matter of fact, the traditional lending institutions, the chartered banks, are amazed that this company can take the rejects, those companies that have been rejected by the traditional lending institutions, loan them money, and those companies can have a success rate of 90 percent.

MR. MUSGROVE: Mr. Chairman, my question is with regard to the Prince Rupert grain terminal. The question is with reference to the public accounts 7.3 vote and with reference to 2.2.1. Could the minister tell me if the Prince Rupert grain terminal project is within cost estimates, and if not, how much was the overrun?

MR. SHABEN: Mr. Chairman, I believe that the final estimates that we were working with when the final approval was made for our investment in Prince Rupert Grain were $280 million. The provincial investment in that complex is $231 million, which is, Chairman, just about bang-on our estimated costs. The total projects costs are now in at $284 million, so the difference in the original estimate and the total costs are very close — $4 million difference.

MR. MUSGROVE: Okay. A supplementary question. Has the terminal realized its potential as a major export facility based on its capacity?

MR. SHABEN: No, and we didn't expect it to. The capability of Prince Rupert is to handle a throughput of 3.5 million metric tons, and in its first year of operation we expect that the throughput will be approximately 1.5 million metric tons. It has not reached its capacity, nor did we expect it to at this early stage.

MR. MUSGROVE: One more supplementary, Mr. Chairman. Is the terminal expected to be cost-competitive with eastbound routings?

MR. SHABEN: The reason that the government became involved in this very massive investment in support of western agriculture was because of the cost savings to Alberta producers or western Canadian producers, and we continue to estimate that the cost savings on transportation and elevating will be approximately $20 per tonne.

MR. HERON: Mr. Chairman, I'm looking at your annual statement 7.1 and vote 1.2 and looking at a special warrant of $120,000 that just stands out there under planning and services. Could the minister tell me what this special warrant was all about and what it was for?

MR. SHABEN: That was our initial expenditure, Chairman, that we required by way of a special warrant to undertake the complete feasibility studies for the container transportation system that was ultimately developed and is now known as the Alberta Intermodal Services. The dollars were required to examine all aspects of the concept and determine its economic viability. So it was required to undertake that feasibility study.

MR. HERON: Perhaps, Mr. Chairman, a supplemental question. Was the Alberta Intermodal Services developed within budget, on time, and when did it commence operations? I know little about it.

MR. SHABEN: The AIS commenced operations in January of this year on schedule. It's well within the total budgeted figures. Twenty million dollars was advanced in '85-86, and the balance of the amount approved will be in '86-87. As a matter of fact, the volumes of container traffic have exceeded our projections for the first seven months, and so we're very pleased with the success of Alberta Intermodal Services. It has resulted in a dramatic reduction in transportation costs for Alberta shippers, so it's working very well.

MR. MITCHELL: Mr. Chairman, to the minister. I have a feeling that the earlier questions about the people and the budget and so on may have been with reference to questions that I'd asked in the House or that we discussed in the minister's estimate, and I can appreciate that. What I would like to say is that I don't want my earlier comments about the idea of the Alberta Opportunity Company to be misconstrued. I think it's an excellent idea, and I'd like to congratulate the government on it. I'm particularly pleased that it promotes, as it does, diversification. I believe that questions concerning its management are always relevant, particularly when the ratios of people to portfolio and people to new loans seem to be as imbalanced as this one seems to be. I appreciate your response to that this morning, but I'd like to pursue it a little bit further.

One of the critical features of running a business is its ability to make its payments. The Alberta Opportunity Company owes $167 million to the Heritage Savings Trust Fund. I believe that the rates on those loans, those various debentures, are between 12 and some percentage, and the interest expense that was paid to the Heritage Savings Trust Fund was $20 million in '85 and $19 million in '86. However, in '86 the company received $8 million in grants from the government and lost $4.5 million. So while it paid $19 million in its obligation to the Heritage Savings Trust Fund, it lost $12.5 million. In '85 it paid $20 million, but it lost via grants from the government and actual losses $22 million. I'm going on too long? Okay. Short preamble.

I would just like the minister to comment on the proven result this company has in meeting its obligation to the Heritage Savings Trust Fund with the expenses, with the operating costs it has incurred. How can you assess its success in light of that measure?

MR. SHABEN: Well, Chairman, I don't know whether you can measure the success of that institution simply by the measurement that has been asked, although it has to be a part of the measurement. The member is accurate in describing the process by which the Alberta Opportunity Company obtains its funds. It obtains its funds at whatever the market rate is by way of debenture borrowing from the heritage fund, and at the moment I believe the base lending rate is 11 percent. The corporation board of directors has the mandate to vary that rate either up or down depending on the particular application, its geographical location, and other factors. The time at which the debentures are floated with the corporation has an impact on the deficit or the shortfall in terms of the capacity of the corporation to meet the debenture payments, because sometimes — it was prevalent in that '81-82 period, when the debenture rate was 16.5, 17, 18 percent and we forced the corporation's lending rate down and kept it at 12 to 15 percent. That's a part of the reason, Mr. Chairman, for that accumulation of deficit that was required to be met by way of a transfer from the GRF to the corporation.

I had responded to you earlier in question period that a corporation that achieves a success rate, as a lender of last resort, of 90 percent of the businesses that obtain funding remains successful. I'm comfortable as the minister responsible for this corporation in having taxpayers' money being transferred from the GRF to that corporation to create the thousands of jobs that have been. Perhaps the managing director might add to my comments, because your question was rather specific in terms of the amounts of dollars. But in general terms, the reasons are as I've described: that the differences in the debenture rate, the interest charged on the various loans as well as the losses including accumulated losses, were a result partially of normal losses that the corporation would face plus those losses that were extraordinary as a result of the downturn in the economy.

Roy, did you want to add anything?

MR. PARKER: I would appreciate adding a couple of points. First, it should be added that any of our loans may be prepaid without bonus or penalty at any time, which is not normal in the lending business. During the past four years 600 of our accounts, give or take a few, have been prepaid — that's above and beyond the normal repayment scheme of things — for approximately $40 million. Most of those were accounts that had received money during the higher interest rate days. They paid out; they were able to get their funding from the private sector. But the debentures that we had issued to provide the funding were at high rates, up to 18 percent, and those are still on the books and are being repaid over the normal repayment period. So the funds that were paid back in were high interest rate cost loans, and they were lent out at a later date at much lower rates. For instance, for a loan at 11 percent today you could say that some of that is being charged out at 18 percent until that debenture is fully paid out.

The next thing I should put forward is that unlike most lending agencies we do not have an equity base. Everything we lend out is borrowed, and we pay market rate at that. To help us overcome this — obviously, if you're 100 percent financed, it's very difficult to break even, let alone make a profit — there is support by way of assistance to small business by an annual grant.

The third thing I would say in relation to our losses is that unlike chartered banks, which have a five-year average for applying the losses to the books, when a loss comes, we write it off that year, and what you see is what you get. There isn't a buildup of losses that we have taken that we're going to apply over the next three or four years. So those are major factors in regard to operating losses.

Going back to a previous question that I should elaborate on a little bit, we have a number of services provided free to our customers. We have a consulting group made up of about six consultants plus support staff who are available to provide specific guidance other than financial in various areas to our customers. This is a cost that is borne by the company. Beyond our branch network we have loans officers going out in the field. We have over 100 communities that we visit on a regular basis. We have about 300 advertised visits a year. So these fellows are off, and you know it takes time to send a person to Oyen or High Level or wherever we don't have a branch, have them there for the day to meet with the people in the community who are interested, and bring them back. These all add a cost to our administrative burden that would normally not be the case in another lender.

Beyond the consulting, we have a lawyer and support staff who do our legal work at no charge to the customer; he pays his own lawyer, obviously. We have an insurance risk analyst with support staff who ensure not only that our interests are covered but that the businessman who deals with us is made well aware of what he should consider above and beyond the requirements that we stipulate in our loan. As I say, these all add to the numbers and to the administrative burden and are not recovered through charges to our customers.

MR. MITCHELL: Thank you. A supplementary. I guess that leaves me with the next question, which is: how do you measure your sense of success? It's one thing to say that you have to do 300 trips. That's great; it advertises your services and makes people know that the government is there trying to do something for them. I'm not saying that's intrinsically wrong, but the only measure I've heard so far, and that's not a criticism, is the 90 percent of successful loans. That's a great measure. But if it costs you millions and millions of dollars to achieve that success, then somehow it perhaps isn't as great a success as we might think it is. There isn't a measurement for profitability. I understand that that's difficult, but clearly this isn't profitable, and clearly it's not making its real payment to the Heritage Savings Trust Fund.

The minister wasn't clear about comparisons with this kind of operation in other provinces, which would be some sort of objective measure of your success. What drives your department? How do people measure their success? How do you measure your people's success? Do you have one person managing a portfolio of $6 million and compare his portfolio of $6 million with another person's portfolio of $6 million? Who has the greatest losses? Who has the best collection record? Who has the greatest success record? Do you have those kinds of comparisons? What objective criteria do you have for success in any range of things?

MR. CHAIRMAN: If I may interrupt. I think preambles are necessary, but in fairness to other people that might want to ask questions, we should try to keep them within some kind of limit. Okay? I think you've made your question. I think Mr. Shaben probably understands the direction you're going in.

MR. SHABEN: Chairman, I'll make general comments about the gist of the question, because there are about four questions in there. First of all, the creation of the company in 1972 had clear objectives, and that remains the objective and the mandate of the Alberta Opportunity Company. Balanced growth in terms of economic opportunities throughout the length and breadth of the province had been a concern in Alberta. There wasn't a vehicle that was responding to the needs of rural Alberta; by that I mean outside the major centres. So balanced growth remains an objective of the corporation. Therefore, when Mr. Parker referred to the 300 visits to communities throughout the province and the location of offices throughout Alberta, it's to meet that objective.

Of course, tied closely to that was the diversification of the economy. Predictions were rampant in the late '60s and early '70s that rural Alberta would collapse and all Albertans would end up in Edmonton and Calgary. That gradual change has continued to occur, but as a result of activities of the Alberta Opportunity Company, it's been slowed dramatically in terms of economic opportunities and jobs that have been created throughout Alberta. So those are the basic premises upon which the company was established and continues to function.

With respect to measurement of performance of individual loans officers, I'd leave that to Mr. Parker to respond to.

MR. PARKER: I'd be more than happy to. Within the company we have several levels of categories of loans officers -- three to be exact. They work their way up as they gain experience and competence. It's very difficult to have a cut-and-dried criteria of success. There's a lot of subjective judgment that has to go into it. The fellow who does twenty $50,000 loans a year compared to a fellow who may do 15 but five of those are $1.5 million and very complex — you just have to look at the background and knowledge that each of them has, the effort they put into it, and the quality of the loan report. Certainly, the delinquency levels of branches and individuals are taken into account, and the branch managers are responsible for the assessment of the individuals as to their growth and development within the company. Then we further on in management will review that, and generally we agree. That's the basis on which we're making our judgment as to who is outstanding, who is adequate, and who should get the boot. We do let people go when they're obviously not qualified, and that's just part of running a business that, however distasteful it is, has to done from time to time.

As far as a comparison of AOC with other provincial and federal lending agencies, we had a comparison done about seven years ago with the Federal Business Development Bank, which we thought indicated that our productivity and level of performance was above theirs. Time has passed since then. Their mandate has changed. In the provincial agencies that are somewhat similar to us there are quite a wide variety of mandates that differ from province to province, and it is difficult to compare someone who is in the land development business for major new companies buying land and putting up buildings to someone like ourselves, who are overwhelmingly in the term lending field. There are very limited areas of similarity.

One thing I can say is that in my term as managing director I have had people from several provinces come to us and spend considerable periods of time talking to myself and our people, seeing what we do and how we do it, because their understanding of our operations is that if we are not the best, we are one of the top two or three in the country. They have attempted to have some of their programs modelled after ours, and some of our procedures, forms, and ways of doing things have been instituted in those organizations.

MR. PASHAK: One snappy supplemental.

MR. MITCHELL: Yes, I will. The AOC's portfolio from '82 to present is about the same. The new loans guaranteed and authorized from 1982 to '86 is about half. Presumably the workload is less. Has the number of staff declined since 1982?

MR. SHABEN: I'll let Roy respond initially, and then I'll follow up with additional comments.

MR. PARKER: The staff has been reduced about 3 percent, I believe, from the peak level. However, during the period of '82 to '86 several things happened. The recession hit, and there were not only a lot of accounts that were in difficulty but many others that went under. We transferred a significant portion of our staff from strictly loans operations to care and maintenance and ultimately liquidation. Our support services division has grown probably fivefold in that period of time, partly as the result of our people who are involved in dealing with what we call special debts, difficult accounts, and partly as the result of the growth of our consulting group, which started in 1982 or '83 with one person and has grown to the group I mentioned to you before.

So the lending staff, as such, has been reduced, and actually the number of applications we're dealing with has remained pretty well the same. The number of inquiries actually has grown. With more people in difficulty and more people being turned away by banks, more have come to us. So fewer people in the actual lending arm have been doing more. The administration of the accounts is a significant part of our operation, but it is not the majority. It's a significant minority of what our people do spending their time. What they have lost in accounts to administer they have gained in more inquiries, doing the same number of applications — thorough, full studies — with fewer people, and those who were there before who haven't gone are looking after the accounts in extreme difficulty and attempting to either minimize our loss or get them back on their feet so that they go from being the living dead to at least a level keel.

MR. SHABEN: Chairman, with respect to this situation, it is not dissimilar from what has occurred with other financial institutions in that the shift in emphasis had to be from attention to loans administration and with continued attention, of course, to loan applications. A lot of the work that has been done, and individual members would be aware of it, involves intensive consulting by staff of the corporation with companies to assist them in maintaining viability, and it's as important a function as the loans administration. We're aware that that shift has taken place with conventional financial institutions and other Crown agencies that have portfolios to manage. I think the corporation has done an excellent job in assisting companies that have experienced difficulties because of the economic downturn and helping them maintain viability.

MR. NELSON: Mr. Chairman, I'd like to also deal with the AOC. I have a few questions. Considering that AOC is what it appears to be, a relatively expensive operation, I'm just wondering, considering the risk that's out there and the large operation, has there ever been an analysis done considering what they've just done with the $2 billion agricultural investment and the small business investment that will shortly come up as far as lending is concerned? Has there been an analysis done to buy down a traditional lender risk rather than use this, what I call, expensive tool? Would that save us some money?

MR. SHABEN: I'm not sure I understand the hon. member's question. Mr. Nelson, would you expand on the question?

MR. NELSON: Mr. Chairman, there may be an opportunity to, I guess, use a form of guarantee to buy down lender risk through the normal lending institutions rather than using a corporation such as Alberta Opportunity. In that way we would save a considerable amount of money, possibly when you look at the amount of money that's actually being lost through the risk that we have. If we were to purchase or use those moneys to buy down that lender risk through the normal institutions, we may have an opportunity to save a considerable amount of money. I'm just wondering if there has been an analysis done to that effect.

MR. CHAIRMAN: Is the question clear now?

MR. SHABEN: Chairman, I think I'll take a shot at it. Part of the corporation's mandate does permit the corporation to guarantee loans of other financial institutions, and a portion of the activity each year involves guarantees or partial guarantees of loans with other institutions. Also, the corporation staff work closely with conventional lenders where a portion of a company's debt can be financed through Alberta Opportunity Company and a portion through the bank. The comment I would make with respect to guarantees, though, is that those remain a contingent liability. There may not be the cash requirement, but the liability remains, and should that company not be successful, the corporation would be responsible for absorbing whatever losses or whatever portion of losses they guaranteed. So the corporation does involve itself in guarantees of loans by other financial institutions. It does, in a manner of speaking, jointly finance operations and work closely with conventional lenders, so that function does exist.

I think the member should bear in mind that virtually 99 percent of the clients that approach the Alberta Opportunity Company are those that have been turned down by at least one and usually two conventional lenders. That's the point I made earlier: that it has been a lender of last resort. The mandate of the Alberta Opportunity Company is very different from chartered banks or conventional lending institutions.

Mr. Parker, anything to add?

MR. PARKER: Only two points. One, the guarantees we provide are for residual balances of operating credits, and our experience has been that we have far greater losses many, many times over on those guarantees than we do in our normal lending portfolio. They represent probably 5 percent or less of our total deals, and they probably represent 25 percent of our losses. In talking to people from other provincial agencies who are much heavier into the guarantee field or have been into the guarantee field, they have advised that that is the case. The losses on a guarantee basis with a chartered bank are far greater than if you do it yourself. When they have the support of a guarantee, there seems to be less likelihood of strong action by the bank, and you're there to kind of pick up the bottom end.

There was one other thing I wanted to say; it has slipped my mind, so I can't think of it.

MR. NELSON: Mr. Chairman, of course you have the same opportunity to qualify the lender for that guarantee as you would normally for the direct lending you would do.

MR. SHABEN: Chairman, I'd just like to interrupt for a moment. There's some validity in the argument made by the hon. member. But there is far less control, because the lender is the bank as opposed to the corporation, and there is less capacity for the staff of the corporation to monitor and involve themselves in the controls of that company. Should the company be the direct lender, you have a far better capacity to involve yourself in terms of monitoring the activities of the company.

MR. NELSON: Mr. Chairman, I'm just wondering that considering the amount of travel that has to be done to assist many lenders throughout the province, has the minister considered the possibility of developing the Opportunity Company along with the Treasury into a co-operative mode or even having the Treasury Branches gobble this up and use the many Treasury Branches throughout the province as this lender of possibly first resort rather than last resort?

MR. SHABEN: Chairman, the Treasury Branches provide a vital service to people in Alberta as an alternate lender. Alberta Opportunity Company has historically been a lender of last resort. Their mandates are so completely different that it would be difficult to combine the two. I know that this isn't the forum for me discuss how the Treasury Branches function, but they function very similarly to the chartered lending institutions. The Alberta Opportunity Company's role, mandate, and client group is completely different, and I would have difficulty accepting the idea that the two could be merged without a government change in policy that says this institution no longer has the mandate that it was given by the government and continues to have.

MR. NELSON: A final supplementary on this go-round. Considering the answer by the minister, would it not be prudent to maybe even suggest that -- the Alberta Opportunity Company started in 1972, and times have changed; it's now 1986 — we could examine the broadening of the mandate of the Treasury Branches to the extent of even making them a class A bank and allowing them through the strength of both the Treasury Branches and the government to envelope this type of portfolio as a lender of first resort rather than the object of a lender of last resort? I don't like the term "last resort," because it really creates a negative in the community — however, creating a company that would be extremely receptive to a broader base than maybe can be obtained here.

MR. CHAIRMAN: Before the minister answers that question, here is perhaps a question that has to be settled as far as the committee is concerned. We're authorized, as I understand, to deal with the accounts for a certain period of time for the year that ends March 31, 1985. Your question clearly gets into the realm of speculation and policy and that kind of thing, and I'm not sure whether those questions are better dealt with in the Legislative Assembly, but I'll let Mr. Shaben deal with that.

MR. SHABEN: Chairman, with respect to the mandate of the Alberta Opportunity Company, I had advised members of the Assembly earlier in this session that discussions had been held with the chairman of the board by myself, the Premier, and my predecessor with respect to modifying the mandate to allow the corporation to involve itself in more than just debt financing. The board recently held a weekend discussion on the recommendations of the government, and I intend to meet with the board within the next few weeks to further discuss that shift. The board is receptive to the idea of involving itself in equities as well as debt, a combination of equity and debt.

The concept of sort of combining the two, the Treasury Branches and AOC, is not one I would consider at this time, but the hon. member might like to put a motion on the Order Paper or take it to the caucus.

MR. R. MOORE: Mr. Chairman, seeing that we're reviewing that '84-85 year, back then Economic Development had a committee reviewing the method of payment for the Crow rate, and their recommendation was payment to the producers. We haven't heard much of the results of that or what has happened with it. Can you tell me what has become of it, or is it just lost in a maze of discussions between Ottawa and everybody?

MR. SHABEN: This is a very important issue that is very high on the government's agenda and on the agenda of the department of economic development. Members will recall that the Gilson report and the hearings that were connected with Gilson resulted in a recommendation that the producer be paid the Crow gap. Subsequent to Gilson, the Hall report was consistent in terms of its basic recommendation, although with some fine-tuning in terms of the administration because it's a complex and difficult issue.

I should go back. The Western Grain Transportation Act that was enacted federally said that the Crow gap or the Crow benefit would be paid to the railways but there would be a review. That review by the GTA, which is the Grain Transportation Agency, has now been completed.

I recently met with the chairman of the GTA, Mr. Horner, with my colleague the Minister of Agriculture, and the Alberta government continues to support the consistent recommendations that have been made by Gilson, Hall, and the GTA. We have recently made representations to the new federal Minister of Transport, Mr. Crosbie, and I'm looking forward to meeting with Mr. Crosbie and further discussing the implementation of the recommended changes of the GTA in amendments to the Western Grain Transportation Act. Also, Mr. Chairman, we're having discussions with other provinces and interested groups in order to solidify the support for these consistent recommendations.

MR. R. MOORE: A supplementary, Mr. Chairman, on that subject. Alberta's position has always been well known as pay the producer. There were other areas that disagreed with that; it was very evident. How are the other grain-producing provinces? Are they now supporting us?

MR. SHABEN: It's a fascinating subject, because it seems to depend on the rhythm of the year. It depends to some extent on what advice governments receive from interest groups within their jurisdiction. As the hon. member knows, in our neighbouring province to the east, Saskatchewan, the Sask Pool has not been supportive of Gilson or Hall or the GTA. Of course, in some eastern jurisdictions, because a pay-the-producer concept would result in restoring Alberta's natural advantage in agriculture, it would not be something they would support, depending on the political time frame. But we are continuing to press very hard for implementation of the recommendations that we've referred to. I can't judge as to whether or not we'll be successful.

MR. FISCHER: I have a little supplementary question on the AOC concerning the lender of last resort. When an industry goes into receivership, are the people involved eligible again to get back in in something else? I don't know whether it's true or not, but I've heard different times that people have had a second loan after a failure with the first. Do we have a policy that is anywhere near that kind of thing or not?

MR. SHABEN: Mr. Chairman, let me make a general comment, and then I'll ask Mr. Parker to respond to the specific. The general comment is with respect to my personal view of people who go broke. Many, many successful businesspeople have gone broke in their lifetimes or gone into receivership or gone bankrupt. There is always a certain amount of stigma, and there is a difficulty for a company or individual who has had that experience to get back on their feet. Many of us know individuals who have suffered losses and been forced into the terrible situation of bankruptcy or receivership and have rebounded and become very successful. I have the view that simply because somebody has gone broke doesn't mean they shouldn't be dealt with.

The policy of the corporation, I would suspect, would be similar to any other lending institution's. You examine the circumstances of the project that is coming forward, the equity, the prospects for success. One of the key things in loans to AOC clients is the people that are involved. It's a crucial factor -- knowing that they've been turned down by other lending institutions, usually because of a lack of equity or something — that a great deal of the decision-making revolves around the person. My view is that simply because somebody has gone broke in the past doesn't mean they shouldn't have an opportunity to get back into business. But I'd refer the specific to Mr. Parker with respect to whether clients who have gone broke have been successful in achieving another loan from the Alberta Opportunity Company.

MR. PARKER: Yes, it's exactly as Mr. Shaben has said. We will look at applications and from time to time approve new loans for businesses where the owners have previously been bankrupt. On very few occasions, but it has happened, where someone who has dealt with AOC went into bankruptcy or the business went into receivership, we have provided funding again at a later date. However, in cases like that, and in cases where people have been bankrupt with other lending institutions, the character, management ability, and general way in which the people conducted themselves before and during the bankruptcy are examined very closely. As long as we're convinced that they haven't been doing something to avoid their creditors to their own benefit, that it was a true and honest bankruptcy — the business failed for whatever reason, assuming it wasn't bad management, or if it was, that they have improved their management abilities — we'll give it the same look as anyone else.

MR. FISCHER: It just seems in some cases that anyone that has gone into receivership leaves a lot of bad debts around. The taxpayers sometimes get rather cranky if they see their dollar going back into giving this fellow another chance. There's always a bad taste in those people's mouths when it is all finished. Anyway, I can appreciate your answer with that.

MR. SHABEN: Could I ask Mr. Fischer a question?

MR. CHAIRMAN: I guess that's permitted.

MR. SHABEN: Do you think that somebody who has gone broke shouldn't have another opportunity to start another business?

MR. FISCHER: It's debatable whether they should or not with your and my money as taxpayers.

MR. CHAIRMAN: I've been somewhat loose here in encouraging this debate. I think we had better get back to questions. Do you have a supplemental, Mr. Fischer?

MR. FISCHER: The main question is to do with diversifying our economic development here in the province. Could you give us some examples of our diversification?

MR. SHABEN: Chairman, yes. Is there a time limit on the response to this question?

MR. CHAIRMAN: We have approximately eight other people on our list here who would like to ask you questions, and we have until about 11:25 to complete the list.

MR. SHABEN: Let me try to keep the response as short as I can. Obviously, the objective of this department is to assist the people of the province and the private sector to achieve greater diversification of our economy. That is the objective and continues to be the objective. Our role as a department is to act as a catalyst to help achieve that, to develop programs and policies that assist individuals and businesses to respond to the opportunities that exist. Obviously, the economic base of this province is historically in agriculture and also in energy. As a result of those two strong pillars of the economy, a great deal of diversification that has occurred has spun off from those as well as others that you might call service related.

Let me touch on a couple. Petrochemicals have resulted in the employment of thousands of Albertans. This was a decision that was reached in 1973, that we would aggressively work with the industry to develop world-scale petrochemical capability in Alberta. The investment in petrochemicals is now in the neighbourhood of, I believe, $6 billion and thousands of jobs. As you move through that particular stream of diversification, we now have approximately 300 manufacturing companies that produce plastics or rubber products that are a direct result of the petrochemical industry. That's been a very important one. I think it's one of the key areas that can grow. As you reach the various stages in the downstream development of our petrochemicals, the skilled jobs, the investment, and the opportunities grow geometrically. That's one key example of diversification.

In the science and technology area — and you might like to pursue this with the minister of science and technology — a number of building blocks have been put in place: the Alberta Research Council, the product development program, the Centre for Frontier Engineering Research, the establishment of the supercomputer, the Alberta Microelectronic Centre, Alta-Can Telecom, the Alberta Laser Institute, the Telecommunications Research Centre, microchip design and fabrication facilities, the Electronics Industry Information Centre, and the Electronics Test Centre. That's in the high-tech area. We've put those building blocks in place, which has resulted now in a large number of high-tech, highly skilled firms that are establishing themselves and providing significant diversification to our economy.

In the service area, tourism has grown to where it's about a $2.3 billion industry. A number of our programs, including the activities of AOC, are directed toward enhancing tourism opportunities because it's a job generator and provides an inflow of capital.

On the energy side, a number of steps have been taken: the coal research centre and the Alberta Oil Sands Technology and Research Authority, which have resulted in that activity in the mining and heavy oil sectors and in export of technology that is creating thousands of jobs in Alberta.

Chairman, I won't go on too long, but I wanted to say, to give a specific example, that a president of a company that employs 250 people came in to see me the other day. Five years ago his staffing was at 250, and 100 percent of their business activity was in Alberta. Now 50 percent of their business is as a result of export of technology. They've retained their staffing levels as a result of seeking out export markets. That's a growing facet of the diversification of our Alberta economy as many companies are working with us through our trade missions and our developing of export opportunities to access opportunities in the Pacific Rim, the United States, elsewhere in Canada, and in Europe.

These are some examples, and I haven't touched on our transportation initiatives.

MR. CHAIRMAN: If I might interrupt the hon. minister. [interjection] Yes, you may, but I would hope that you'd make it somewhat more specific to the period of reporting that we're supposed to be examining here, rather than getting into the realm of policy. Mr. Fischer.

MR. FISCHER: Just on the agriculture processing part of it. As you know, we have some very troubled times with getting some secondary industry going in agriculture. Are we putting special emphasis on that area?

MR. SHABEN: Yes, by a variety of mechanisms. I think two of the key — and, Chairman, I respect the time of the committee, but I didn't get into forestry at all and I would have liked to. But first of all, I want to get into the ag processing. Transportation is crucial to us because we're landlocked, and that's why it's important that we have the initiatives that were referred to earlier by the Member for Lacombe in terms of amendments to the Western Grain Transportation Act and the value-adding of our agricultural products, our food processing. The Nutritive Processing Agreement between Canada and Alberta is crucial in terms of providing an incentive for further upgrading of our agricultural products.

Another one, of course, that's really important is our research Food Processing Development Centre at Leduc. Many food processors, Chairman, are taking advantage of the facilities at Leduc to develop new Alberta products that are completely market ready. We think that's an important mandate of not just the Department of Agriculture but our department. There are the stresses and strains on the ag industry that we experience in commodities, but the area of food processing to meet the needs of Albertans and Canadians and our neighbours in the Pacific Northwest is vitally important to our primary ag producers and to the creation of jobs in our urban centres. So that's a key element of our industrial strategy.

MR. DOWNEY: Mr. Chairman, you're going to like this one; it's very specific. It relates to the subject of international trade, specifically public accounts statement 7.1, vote 1.4. I note in that estimate that some $529,100 was requested by way of special warrants. Could the minister please tell us the reason for requesting those special warrants?

MR. SHABEN: Chairman, $127,000 of that special warrant was required to accommodate the increased number of applications for the market development assistance program. That's been a very well accepted program by exporters to develop products for export, and we've had difficulty meeting the demand for that program. And $258,000 resulted from 203 applications for this program. The balance of the funds was to finance our incoming and outgoing missions. My predecessor, the hon. Horst Schmid, was very successful in creating an interest around the world in Alberta companies, and that interest has been translated into about 250 incoming missions per year of a variety of potential clients for Alberta in terms of people who want to buy Alberta goods and services, make investments in Alberta, or acquire technology. So a major part of the special warrant was to accommodate our foreign trade activities.

MR. DOWNEY: A supplementary, Mr. Chairman. My concern, I suppose, stems from the fact that these were funded by special warrant. I'd like the minister, if he could, to specifically state what activities increased to such an extent that financing was required by way of special warrant.

MR. SHABEN: Quarterly, and actually on an ongoing basis, we attempt to assess and tabulate the sales that are achieved by Alberta companies as a result of these activities. The contract sales concluded by Alberta companies that were assisted by the government rose in 1984-85 to $347 million and in 1985-86 were close to $900 million. So the process is one that has evolved over years in terms of direct sales as a result of our activity increasing each year. We believe that our efforts at export trade, as I referred to earlier in replying to a question by the Member for Wainwright, are an important part of our diversification activities.

MR. DOWNEY: Mr. Chairman, this is on a somewhat unrelated topic, but it is in the same statement number here. I note the largest special warrant in that section is $4,905,000 in vote 2.3 for high technology. Could the minister maybe give us a brief outline of what those funds were expended on?

MR. SHABEN: I'll try and find it. Okay. Vote 2.3. Medical and pharmaceutical under 2.3.1 was our contribution in support of Chembiomed. Vote 2.3.2, $2.57 million, was our support for Global Thermal, and $376,000 was for the Centre for Frontier Engineering Research. Those were the items, portions of which were capital and some were operating.

AN HON. MEMBER: Sorry, Mr. Chairman, I didn't get that first one.

MR. SHABEN: The first one, $2.15 million, was Chembiomed.

MR. CHAIRMAN: The member gets a gold star for asking the right kinds of questions, as I understand the functioning of this committee. Ms Laing?

MS LAING: On the same area I look at vote 3, international assistance, a special warrant for $3 million. I'm wondering what that is.

MR. SHABEN: That was the extraordinary expense that was over and above our budget for international aid of $7 million to host the visit of Pope John Paul II.

MS LAING: Okay. On another vote I would note the vote on the Alberta Motion Picture Development Corporation. When we look at loans and interest due from producers, it's $1,626,969. Deducted from that is an allowance for $679,000 as nonrecovery of loans and interest. I'm wondering why a third of that amount has been written off. It is in keeping somewhat with the year before, or is much, much higher, in fact, than the year before: 10 times as high. That's 5.62.

MR. SHABEN: The Alberta Motion Picture Development Corporation was established to provide predevelopment support for the motion picture industry in Alberta. I'm looking for the details of it, but our objective was to provide that seed money, because it can be and is an important industry. As a result of the activities of the Alberta Motion Picture Development Corporation 12 major films were produced and resulted in economic activity and spin-off expenditure in Alberta of some $15 million, if my memory serves me correctly. I've got the notes here somewhere.

There are some losses experienced by the corporation because their role is in the predevelopment and preproduction stage. They are responsible for repaying the entire amount if the activity results in a film being produced and carried right through. If it doesn't, there is a forgiveness factor that we absorb as part of the risk of promoting the production of films in Alberta. I don't have the precise numbers of the breakdown in front of me, but I'll keep looking.

MS LAING: So this is an assumption then, that one-third will be forgiven of that which is expected in terms of interest repayment.

MR. SHABEN: Public accounts, page 5.62: "These loans are limited to 60 percent of the total funds required for the pre-production stage of motion pictures." The assumption is that some will not be successful. We don't necessarily say that's it going to be a third, although for budgeting purposes it's necessary to estimate some lack of success in the programs. It would be impossible to expect all of them to be successful.

MR. MITCHELL: I'm in the public accounts, volume 2, page 7.2, vote 1. There are special warrants under two subvotes of $120,000 and $529,000, but at the same time there are transfers out of those subvotes. Why is it that on the one hand a special warrant would be required and on the other hand money would be available to be transferred out? It looks like it's been transferred, at least in part, to program support.

This is in my most skeptical . . . One could apply for a special warrant for international trade of $529,000, which is interesting and easily defended, and then transfer the money into program support, which isn't so interesting and so easily defended. Could you explain that?

MR. SHABEN: I don't know whether I can or not, but I know that there are strict controls under the Financial Administration Act for moving appropriations from one vote to another. Probably I could be assisted on that, but I don't think it's permitted that you can move funds from one vote to another. So we can't do that.

When a special warrant is raised, it's a result of a special requirement. Sometimes those funds are not fully utilized. With respect to the transfer of a portion of the approved amount to another — it couldn't be transferred to another vote. It can only be moved within the same vote to a subprogram in that vote.

MR. MITCHELL: Okay. On page 7.4, vote 2.3.5, this is interesting to me. Computer technology had no estimate, no special warrant authorization, nothing total authorized, and expended $3.855 million. Under what authority was that money expended?

MR. SHABEN: One of the interesting things about this portfolio is that from time to time it's necessary to respond quickly to an opportunity or to a challenge. The budget process for the government begins basically now for next year. It's finalized in February. Throughout the course of the year a challenge or an opportunity presents itself. I believe that it's incumbent on the government to respond to those, and if the only way of responding is by way of a special warrant, that's something that has to be done.

With respect to those particular funds, it was for the supercomputer installation that resulted from extensive discussions with universities, with the private sector in the high-tech area, as a result of examining what was happening around the world and what some of the necessary building blocks were in order to strengthen our high-tech area. Those sorts of decisions, I would hope, would continue to be made, rather than waiting the 15 or 18 months that sometimes would lose that window of opportunity.

MR. MITCHELL: This probably just isn't reported here, and the special warrant is actually reported on the preceding page. Okay.

With respect to special warrants, I think the point has been made, but there's been a 25 percent increase in this department's budget by special warrant, $3 million of it for the Pope's visit. Was there no way that the department could have anticipated the Pope's visit expenditure prior to estimates? It seems to me that that's a major exclusion from estimates, and a Legislature would be reviewing a budget for your department that would exclude something that should've been anticipated.

MR. SHABEN: I think the Pope's visit was well known to Albertans, but the decision with respect to where it would be funded, out of which department, was a policy decision. In terms of that decision I can't comment, not having been at this particular desk at that time. Obviously, the people of Alberta and the province were going to provide the necessary support for that visit. It came out by this particular method.

MR. NELSON: Mr. Chairman, I'd like to just get back to my favourite, AOC. Considering the discussion that has been taken with regards to AOC becoming an institution that may take an equity position in a corporation that they wish to support — I guess I'll use Lyon Mountain as a prime example — would the corporation consider, when that becomes a viable window of opportunity to do so, taking that equity position and allowing the operation of those institutions or companies to continue under the management of the people that have put their soul or money into those operations rather than sending in receivers and what have you?

MR. SHABEN: Mr. Chairman, in my view one of the reasons for the success of the Alberta Opportunity Company has been the quality of the individual Albertans who serve on the board of directors of this corporation. They are, by and large, outstanding Albertans who come from all parts of the province and from a variety of occupations and backgrounds, not just people who are in business but people who are in other professions. The board of directors runs the corporation, and they, along with the administration, have been, as we've described earlier, very successful in running a corporation that has enormous risk in terms of the potential for losses.

When individual companies experience difficulties and it's necessary for the corporation to act by way of placing a receiver or other actions, those are not easy courses of action for them to take because these are peers. The people who make that decision are business people and people in the community, and it's not an easy decision. But they have a mandate that is twofold: one, to serve the people of Alberta in terms of business opportunities and create activity, and the other is to manage the taxpayers' funds with care and effectively. I believe that the board does that.

Whether or not a particular application is suitable for the new directions of the corporation is one that I wouldn't comment on because it's one that the board will have to take. I don't know how we can get into the discussion of a particular application without beginning to discuss the balance sheet, the indebtedness, the situation with the subtrades, and all of the other particulars. We have historically kept those relationships commercially confidential and would continue to do so.

MR. NELSON: Mr. Chairman, I don't disagree with anything the minister has said, and that's why I generalized rather than using Lyon Mountain as a total thing. I don't really want to discuss the total financial situation of that particular entity here, but I used that as an example relevant to the equity thing, and I don't have a problem. I guess the reason I asked that question — and I would like to supplement that with another one -- is that there are opportunities out there that, through taking an equity position, AOC would have, in the same vein as a loan, the opportunity for developing a profitable entity to assist their balance sheet in the net end, with the opportunity of allowing those people that needed the equity so that there was no necessity for them to immediately make repayments to a loan, which may make them a successful entity in the long term rather than having the difficulties that may be prescribed because of repayment schedules in an early stage.

I guess what I'm asking is: will the opportunity to place equity into some of these businesses, when that avails itself, be done rather than using this lending institution, as such, as a last resort but taking out an equity position to ensure a more viable situation could occur ultimately with the owner of that business buying back his equity?

MR. SHABEN: Yes, it's going to be done. I don't think members of the Assembly will see an instant shift to equity participation in every application, because there are a number of mechanical, administrative, and financial matters that have to be dealt with. Mr. Parker referred to the fact that this company has no equity; all of its funding comes by way of debenture borrowing. If a portion of the investment does not attract any return — that is, the quiet money that is put in by way of equity investment — there has to be some offset in terms of the capacity of the corporation to deal with it. So I expect that the corporation will gradually evolve and increase its activity. As a matter of fact, I believe right at the moment the board of directors is considering two or three applications that involve a combination of equity and debt, and over the period of years that proportion will change.

MR. CHAIRMAN: Before Mr. Nelson puts his third supplemental, perhaps I should ask the minister whether he can guess whether they have a little more time this morning, because our scheduled time for adjourning today was 11:30.

MR. SHABEN: I can go to twenty-five to twelve.

MR. CHAIRMAN: Twenty-five to twelve. Mr. Nelson, do you have one final supplemental that you'd care to put?

MR. NELSON: I guess one quick one. Would the opportunity be available to the AOC to allow for taking an equity position in some of these corporations to allow that the owners, for example, if something happens that they go into receivership and rather than selling the corporation that they have to get a return on their lending at 10 cents on the dollar and virtually put the guy out — would they be better off not taking that equity position and seeing to the success of that small company?

MR. SHABEN: Mr. Chairman, I don't know the answer to that. It's a hypothetical example. I think that you can't deal with those sorts of things because each application has its specifics and no two are the same. There's no way I can answer the question.

MR. CHAIRMAN: Mr. Brassard, I had record . . . [inaudible]

MR. BRASSARD: Pass.

MR. CHAIRMAN: Fine, I'd like to thank the minister and Messrs. Gendall, Roth, and Parker for coming today. We appreciate your time, and we recognize that you're taking it from a busy schedule.

There are just two quick items of business. In terms of our scheduled order of appearances, neither the Minister of Agriculture nor the Associate Minister of Agriculture can be available next week, but the hon. Mr. Moore, who is scheduled for the week after is available, so I'd suggest, if it's agreeable with the members, that we reverse the order of their appearance. Is that agreed?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: And then I would just need a motion that we meet next Wednesday.

MR. SHRAKE: I so move.

MR. CHAIRMAN: Moved by Mr. Shrake. Agreed?

Then a motion for adjournment would be in order. Moved by Mr. Moore that we adjourn. Agreed?

HON. MEMBERS: Agreed.

[The committee adjourned at 11:31 a.m.]