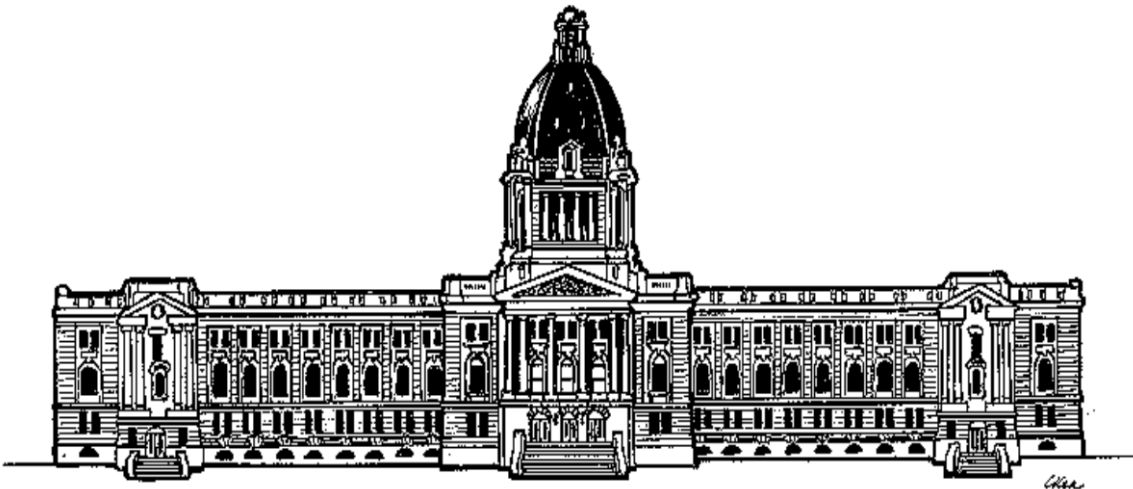




Standing Committee on Crown Corporations

Hansard Verbatim Report

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Legislative Assembly of Saskatchewan

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**STANDING COMMITTEE ON CROWN CORPORATIONS
2001**

Andrew Thomson, Chair
Regina South

Kevin Yates, Vice-Chair
Regina Dewdney

Graham Addley
Saskatoon Sutherland

Greg Brkich
Arm River

Yogi Huyghebaert
Wood River

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Saskatoon Meewasin

Warren McCall
Regina Elphinstone

Don McMorris
Indian Head-Milestone

Peter Prebble
Saskatoon Greystone

Brad Wall
Swift Current

The committee met at 09:36.

Crown Investments Corporation of Saskatchewan

The Chair: — Good morning, everyone. I'd like to call this meeting to order. We're working on a somewhat abbreviated schedule for today to accommodate government members who are wanting to attend an announcement by the Minister of Economic Development at 11 o'clock at the Research Park. So yesterday when Brad and I talked, we were suggesting we would probably adjourn around 10:45 this morning.

We have in front of us today CIC (Crown Investments Corporation of Saskatchewan) officials. We have three substitutions in the committee: Mr. Hart is substituting for Mr. McMorris; Ms. Junor for Mr. Yates; Mr. Wiberg for Mr. Huyghebaert.

I won't read the caution as we have the same officials in front of us. But I will remind you that your testimony is considered privileged and perhaps what I could do is ask you, Mr. Hart, to introduce your officials to the committee.

Mr. Hart: — Okay, thank you, Mr. Chairman. My name is Frank Hart. I'm president and chief executive officer of Crown Investments Corporation. I have with me, John Amundson, our corporate controller, starting over on my right. Next to him is Sheldon Schwartz, chief financial officer. Next to me, Mike Shaw, senior vice-president of Crown corporation services. On my left, Zach Douglas, vice-president of investments. And sitting next to Zach, Michael Fix, vice-president of corporate development. In the back to my right we have Doug Kosloski, the general counsel for CIC. And to my back left, Ted Boyle, communications director.

The Chair: — Okay we are continuing on with our review of the '98, '99, and year 2000 annual reports. Do you have an opening statement today or would you like to proceed directly to questions.

Mr. Hart: — We made our presentation last week so we can go right to questions if you like.

The Chair: — Okay.

Mr. Brkich: — Thank you, Mr. Chairman. Welcome to the officials today and the chairman. My question's concerned with potato sheds in my constituency, plus in the other ones.

I believe you took them over; you'll have to give me a little background on that. What I'm asking right now is, is there still a mortgage on them and do you . . . are they still under your . . . directly under CIC or are they under Sask Valley Potato Corporation?

Mr. Douglas: — Yes, there still is a mortgage on those facilities, guaranteed by III, Crown Investments Corporation III, with the CIBC (Canadian Imperial Bank of Commerce). And yes, those assets are owned by SVPC (Saskatchewan Valley Potato Corporation).

Mr. Brkich: — Okay they're owned by Sask Valley Potato

Corporation, not by Crown . . . not under CIC?

Mr. Douglas: — That's true.

Mr. Brkich: — Because I think at last — was it last year? — when I talked to minister, they were direct under your jurisdiction. That was true?

Mr. Douglas: — They were transferred through the holding company to III, effective June 30 of last year. And then on to SVPC.

Mr. Brkich: — Okay. So do you know what kind of a . . . how much is still owing on the mortgages on different sheds at Broderick, at Lucky Lake, at the other facilities too?

Mr. Douglas: — I don't have that number right in front of me but I'll check with the financial statements to see if it's evident there.

The Chair: — There's also . . . I just note there were . . . (inaudible) . . . reports filed with the committee that should have been circulated, one as of . . . September of last year there was one and there was an earlier one as well, March 10 of 2000. It might be helpful to have copies of those circulated. Sorry there was an additional . . . that's what I was thinking of. April of 2001 was the most recent one.

Mr. Douglas: — I think I've got the number for you here from the financial statements — 5.424 million.

Mr. Brkich: — Thank you. The next question centres around the tax notices that were sent out on these potato storage facilities. I believe the minister said you were in negotiation with the RMs. Is that still ongoing?

Mr. Douglas: — It is. I met with them last Friday and intend to meet with them again. I had hoped to do that tomorrow but I think it's going to be early next week actually.

Mr. Brkich: — If I may, I don't know if it's confidential or not, but how is negotiations going?

Mr. Douglas: — From our point of view, I think there's been some constructive discussions and we're hopeful of an amiable resolution to the situation.

Mr. Brkich: — Thank you. The question I want to ask: why would you feel that the potato storage facilities would be just taxed as agriculture land when you . . . Like a producer pointed out to me, he said when I pay rent on them, he says that would turn them basically into a commercial entity.

Mr. Douglas: — I think from previous answers to that question, you would know that there's a combination of owned potatoes stored in there as well as some custom storage that's done.

And the opinions that we've received from our advisers suggest that those would be properly classified as agricultural operations. There is a legitimate debate about that question, and our hope is to resolve that through the process this year in terms

of the assessment and the appeal process.

The other dimension to this, I think you're probably aware of, is the fact that these are Crown assets and would normally be considered exempt from municipal property taxation and fall under the policy of the government to pay a grant in lieu of taxes rather than a tax per se. And that's part of the discussions we're having with the RMs.

Mr. Brkich: — Thank you. And you talked about the appeal process. When the tax notices were sent out, there's always an option for everybody to appeal to the RM (rural municipality). And apparently, according to the RMs, you never filed an appeal notice. Wouldn't that have been the first step and the proper step to go that route first?

Mr. Douglas: — There is a debate about the validity of the notices in terms of whether they're grant in lieu notices or proper tax notices. And that matter is being discussed with them as well.

Mr. Brkich: — But just like everybody, taxes, when they're sent out, there's always an appeal notice that you can appeal how your taxes are classed and how much you should pay. Basically it was that appeal process was ignored. You could have sent somebody then and started the process and then . . . just like any normal taxpayer would or any business does if they don't agree with their taxes.

The points I wanted to raise at that, you know, you were fortunate. Probably the RM, I think they'd have been almost in a legal right to put a tax lien or go with tax enforcement, when you didn't basically reply back on the appeal notice or pay the taxes.

The Chair: — Mr. Brkich, could I just ask that you not personalize the debate but try and focus it through the Chair.

Mr. Brkich: — Okay.

Mr. Douglas: — I'm not sure what the question was. Can you restate that?

Mr. Brkich: — Okay. You didn't . . . Mr. Chairman, my question to the Chair, through you to the Chair, would be why didn't you do the normal process of the appeal when it's out on the tax notice if you disagreed with the tax notice that came out?

Mr. Douglas: — The information I have from the management of SVPC is that they have followed the appropriate processes in this case.

Mr. Brkich: — Well I think it was raised in question period that . . . and the RMs, that they had no notice of an appeal. I forget the exact date when you have the right to appeal and the appeal notice comes out when your assessment tax comes out and you have a certain period of time, Mr. Chairman.

My question is to you and from the RMs; they both have sent me documents saying that there was no appeal process followed. You didn't appeal it.

Mr. Douglas: — I will endeavour to follow up on that issue and provide more information as it's available to me.

Mr. Brkich: — Okay. Thank you. At that note I guess I'll keep in touch with the RMs to see how negotiations are coming along and we may discuss this further.

One other question, I guess, is CIC on your annual reports; obviously Sask Valley Potato Corp has been showing losses. I'm asking, have you discussed this with them in the past year? They've obviously since, through SPUDCO and now through Sask Valley Potato Corp, are showing significant losses. And that should be . . . it's a concern to taxpayers in the area and I hope it's a concern to the CIC Board.

My question to you would be, have you talked to them about the losses? Have you had a recent meeting with them?

With even the potato situation that's going on there right now, apparently with the potatoes that basically are no good for sale, that they could be showing another loss again this year?

Mr. Douglas: — As with all our investments, Mr. Chairman, through you to the member, we monitor them very closely. And there are reporting practices in place around the financial situation of those investments, and certainly we're not handling SVPC any different in that regard. We're monitoring the situation very closely.

We also have members on the board of directors of SVPC. When the assets were transferred over to CIC and SVPC was created, we established an arm's length board of directors with a representative from our operation, from Crown Investments Corporation, on it. There are regular board meetings, one as recently as yesterday, to review some of the matters of ongoing concern with this investment.

But knowing the situation that they're in, I think our position remains that we wish to continue to support this investment, to support the growth of the seed potato industry in the province, to make the best possible use of the assets that we have inherited and give us the time to explore ownership options for exiting the investment, including possible partnerships with the producers in the area. Perhaps a new generation co-op or some other model which allows us to meet that objective of supporting the growth of the seed potato industry and doing it in consultation with the industry.

Mr. Brkich: — Thank you. Mr. Chair, I think at last year's financial report on Sask Valley Potato Corp., they were showing, I think, a million four, I guess it'd be . . . assets would be pretty well what they would . . . was valuing their seed potato crop at.

Now in the spring, when you said you met with them as recently as yesterday, would they have a more accurate picture of how many of them . . . how much close they were to that million four projection of seed potatoes for sale they have left?

Mr. Douglas: — I think discussions of current year financial circumstances are perhaps a little bit beyond what's appropriate in this forum, Mr. Chairman, and some of these are sensitive, confidential matters of the business. I could perhaps speak to

you privately about the situation, but it wouldn't be appropriate for me to discuss this year's operations at this time.

Mr. Brkich: — The only . . . Mr. Chairman, the only reason I did ask that is because the million four was listed on last year's financial report. So even though you're going through the sale this year, it probably will affect last year's financial report.

Mr. Douglas: — I could observe in general that I think you're probably referring to the inventory number there on the December 31, 2000 financial statements, that inventories in any business fluctuate up and down from year to year. And that would happen quite extensively through the course of the year too, as they sell and acquire inventory out of production.

I don't think that particular number would be an overall indicator of the health of the business per se. The result to focus on, of course, is at the end of the year, the bottom line. And that's the focus that we have; we're doing our best to make sure that it has a positive bottom line.

Mr. Brkich: — Thank you, Mr. Chairman. Another question. It's been raised by some of the producers in the area that are a little worried about possible trade sanctions coming in, with the government into the growing and leasing potato growing . . . well leasing land and basically just growing potatoes by themselves, not in partnership any more with producers. Has CIC talked about that?

Mr. Douglas: — We're aware of those concerns. At this time we have no indication of that being the case.

Mr. Brkich: — Thank you, Mr. Chairman. You've talked about eventually turning it over to the private producers. Would that include selling the sheds, or would you still keep them as government owned and then just provide rent to the private producers in the area?

Mr. Douglas: — I think we're open to a number of different models with two objectives in mind, and that's maximizing the value of those assets that the taxpayers own, as well as doing our best to support the growth of the industry. And we're quite open to any number of options as to how we might do that.

Mr. Brkich: — I think that's all I have on now. I'll maybe ask some more questions a little later, but I'll . . . don't want to monopolize the floor, so I'll turn it over to somebody else that wants some questions.

The Chair: — Thank you, Mr. Brkich.

Mr. Addley: — Thank you, Mr. Chair. The area that I want to talk about is performance management. And in your presentation, which I have a copy of, it makes mention of the performance management system in your presentation. Can you tell us a little bit more about that?

Mr. Hart: — Sure. I'm going to ask Mike Shaw to respond to that. That's his area of responsibility at CIC.

Mr. Shaw: — Thank you, and good morning members. Mr. Chairman, the performance management system that's in place now and operating in the Crown sector in Saskatchewan is

meant to ensure that, to the extent that it's possible, that what the government has set out as goals and objectives for its Crown corporations are actually . . . actually show up as results on a yearly basis.

So the decision-making environment that we have in place is one where cabinet sets the broad goals and objectives and strategies for the Crown corporations and sets the public policy goals.

It's then the responsibility of the Crown Investments Corporation Board, which is the holding company for these assets, to translate those goals and objectives into a strategic plan for the Crown sector and then to set broad objectives, targets, and measures for the individual Crown corporations to achieve each year. And then it is the responsibility of the individual Crown corporation boards and the management of the Crown corporations to translate those goals and objectives and strategies into a business plan.

So that's generally a broad breakdown of the roles and responsibilities as they are assigned to the major actors in the piece.

Performance management is a methodology, as I said, to ensure that what is intended as an outcome actually is achieved. And the methodology we use in Saskatchewan is called the Bell scorecard. That was a methodology which was created in the early '90s at the Harvard Business School and has been very broadly adopted in North America by both private sector companies and public . . . government-owned companies and is in broad use as well I believe globally.

The Crown Investments Corporations was an early adopter of the Bell scorecard methodology, particularly in Canada with respect to publicly owned . . . or government-owned entities. We established that as our methodology in 1997.

It's very, very attractive to us and useful because at the very core of the methodology is the belief that to manage for success, you have to manage to more than just the financial bottom line. There are a number of other perspectives that have to be identified and for which goals and objectives have to be set, targets and measures.

And that's particularly useful for Crown corporations because of course a Crown corporation has a broader set of goals and objectives than simply the financial bottom line. And in particular, public policy objectives are assigned to individual Crown corporations.

So we've adopted that methodology in Saskatchewan. And we viewed it as a somewhat longer-term process in terms of developing the targets, measures, and goals on an individual Crown corporation basis and putting them into place.

You can imagine that, at the beginning, a number of the perspectives that we wanted to take in terms of Crown operations were not well developed in terms of targets, were not well developed in terms of measurement and methodologies for ensuring that the companies were able to manage those targets.

So it's been a process of learning and a process of co-operation

and a process of development. And I think we're in a position now where the methodology is working quite well. I believe it's been acknowledged by the Provincial Auditor on a number of occasions as going in a good direction to provide transparency and accountability with respect to Crown corporation operations.

Mr. Addley: — That raises a number of other questions. I guess I saw in one of the reports that you have areas of responsibility in who makes what decision and that sort of thing. Is that a judgment call? Or is that fairly clear cut as to whether it goes to the CIC Board or it's left at senior manager . . . moves on to the cabinet? Like where do you draw the line on . . .

Mr. Shaw: — I believe the allocation of roles and responsibilities is very clear and very well defined. And in our presentation that we made last week and in the handout that we provided to you, there was a page . . . page 5 called, titled Crown governance. And it showed a very detailed breakdown of accountabilities for decision making and the roles and responsibilities that are assigned to each order of decision maker in that.

So generally speaking, the strategic decisions are made by cabinet.

The performance management goal setting, monitoring roles and functions are those of Crown Investments Corporation; and operations are those of the individual Crown corporation boards and management of Crown corporations.

So to answer your question in summary, it's very clear who's responsible for what and where the accountabilities lie in this framework.

Mr. Addley: — With regards to the balanced scorecard that you talked about, I've actually been part of an organization that brought that on, and it's difficult to do, but it also works very well because if you want to . . . (inaudible) . . . something, you measure it.

And so I'm just curious about a couple of points. I know there's, in the handout as well as in the report, you have sort of a schematic diagram of the balanced scorecard. I mean they're basically the same, just laid out slightly differently. How does that work?

And then specifically, in my experience with balanced scorecards, you actually weight the different areas, like customer satisfaction, or customer expectation I guess in this case, could be weighted, you know, 60 per cent; financial could be a certain thing. Is that . . . do you go down that road as to weighting those percentages? And if you do, what determination do you make for that?

Mr. Shaw: — Thank you. It's not a requirement at this time that we assign various weights or various levels of intensity to the goals and objectives. We have a set of goals and objectives around public policy for each Crown corporation; it has been agreed to. They derive from cabinet's directions and the Crown sector's strategic plan. There's a set of goals and objectives around the financial perspective, a set of goals and objectives

around the customer, and a set as well around innovation and growth.

What we try to do is to achieve well-defined goals and then very specific objectives. Not a large number in each perspective — say three or four of the truly key objectives and measures that are going to make a difference between success and failure in a company's operations. And then set out individual measures for determining how you would measure success towards those and then setting specific targets on it.

And our objective each year is, where possible, to kind of move the target along just a little bit farther, to maybe not set out real stretch targets but to try to continually improve on a year over year basis.

We haven't introduced at the Crown Investments Corporation level an element where we assign various weights to these and measure success on that. What we measure on is success towards the individual targets in each of the perspectives. Although I should say, that weighting them is a feature that can be introduced and has been introduced in other systems, but we don't use that in ours at this time.

Mr. Addley: — Okay, which is helpful; which then gets to the next question. If that's not being done —and even if it were being done it wouldn't guarantee that you'd be able to achieve the next point — but if there's a conflict between the financial objective it can . . . you know, you can make a lot of money but the public policy objective isn't as likely to be attained, how do you make that determination? And, you know, how often does that become a problem? And how do you make the public policy objective if it's in conflict with a financial one or vice versa?

Mr. Shaw: — I don't believe that we have a situation where there is overt conflict between public policy goals and the financial goals. If there is anything, the public policy goals are an imperative and that we . . . the company must do what it needs to do to achieve those public policy goals.

I think we've found that we've been able to balance off the financial objectives that are set by the company as well as the public policy goals so that we haven't found ourselves to be in a situation where we have to sacrifice one targeted objective for another. And quite frankly at the front end, I mean this is a balancing, this is not a science particularly; there's some art to it as well.

And what you try to do is to bring all of your goals and objectives into some balance. And there are some trade-offs, but I would never say that there are conflicts. And at the end of the day, it is the call of the Crown Investments Corporations Board as to what are the important objectives of Crown corporations and what are the goals that need to be set to ensure that those objectives are met.

Mr. Hart: — Maybe if I can just add to that. The financial objectives are essentially set by comparing key financial indicators for those corporations in similar industries. So we target to have a balance sheet that is broadly reflective in terms of debt/equity.

So if it's appropriate to have sort of 50 per cent debt, 50 per cent equity, say, in telecommunications companies or 45/55 — whatever the number industry standard is — that's what we try to . . . if we're not there we move toward. And as you may recall, Sheldon explained, in terms of our capital allocation system, last meeting, how that works.

So if we're not at an appropriate debt level then we would allocate some portion of the cash profits to reducing debt. So those are set based on industry standards. And over the past number of years basically we've moved to industry standards. We're either at or close to or, in some cases, exceeding industry standards in the various Crown corporations that are subsidiaries of CIC.

The public policy then, you know, is obviously looked at within that context. But as Mr. Shaw said, we haven't found instances where there've been dramatic conflicts between achieving our financial objectives in terms of being at industry standards and the kind of public policies that we're asking Crown corporations to follow.

For example in the area of Aboriginal hiring, we have goals that are set for the various corporations in terms of the number of new hires each year that we try to have them recruit from the Aboriginal population, so that we have representative workforces and that kind of thing.

Generally speaking, I think in a lot of those cases we found that they're not only good public policy, but reasonably good financial policy as well, to get a representative workforce. And of course, because they're owned by the people of the province, we want to have the labour forces broadly reflective of population here.

Mr. Addley: — Just a little bit on the balanced scorecard again, performance management. How much detail does the CIC Board get in quarterly reports on how the Crowns are doing on their performance objectives?

Mr. Hart: — Quarterly reports. Sheldon, do you want to answer that?

Mr. Schwartz: — The quarterly reports, as Mike and Frank have outlined, would be a combination of all the aspects of the balanced scorecard. My area in particular focus on the financial area, but the Crowns will report quarterly on the extent to which they have met or on the path to meeting their targets for all of the quadrants on the balanced scorecard and sort of various explanations in terms of where they thought they would be and where they think they will be and where they are.

Mr. Addley: — My last question, Mr. Chair, is how . . . I must do a follow-up. How deeply . . . Does each Crown have their own balanced scorecard and is it high-level enough that it's similar across the Crowns and . . . I guess I'll ask the first question and then a follow-up to that.

Mr. Hart: — Okay. Well the general answer — and Mike may want to add more to this — was various Crown corporations had their own business-planning models in place prior to the introduction of the balanced scorecard and performance management system. And over a number of period of years,

we've conformed the configuration of the individual subsidiaries business plans and balanced scorecards to conform with the overall Crown corporations framework for a balanced scorecard.

I don't know if there's anything you want to add to that, Mike.

Mr. Shaw: — Every Crown corporation has a balanced scorecard, and every balanced scorecard has a set of core goals and objectives and targets. There is some variation between the scorecards in the various Crown corporations to meet their individual perspectives and individual needs and the issues that they're managing too. But generally speaking, they're similar and deal with the same core issues that we need to see managed at the whole corporate level.

Mr. Addley: — And is that . . . how deeply into the organization is this tool used? For example, is it just at the high level or as it gets down to . . . basically, if I'm doing a performance management session with a, you know, out-of-scope supervisor, would that individual be presented with a balanced scorecard or would it be the corporate one?

Mr. Shaw: — I'll give you an example of how . . . I'll answer that question by giving an example of how we operate at Crown Investments Corporation.

I think the objective and the true value and benefit from the balanced scorecard will come when it is used to make decisions within the corporation. And when it is — to use a kind of well-worn word — but if it's cascaded down from the corporate level right down into the operating division level and the operating unit level, that's when it will be most successful.

And at CIC we have a balanced scorecard at the corporate level. My division, the Crown corporations services division, has a corporate scorecard . . . has a divisional corporate scorecard and each individual . . . And then we have an annual business plan that is created to make sure that we deliver on the objectives and targets that we have set for ourselves in our scorecard.

And then for each individual, they will have a set of objectives for that year and they will have a performance review that is based on those objectives. And those objectives are tied right to what the division is trying to achieve which is, in turn, is tied right to what the corporation's tried to achieve.

So in theory and in practice when it's working well, there's a complete . . . there's a very direct line of sight between what the corporation's trying to achieve and what every individual is doing on a daily basis. Or at least the focus of their job is to support the business plan of the corporation. There's a direct line of sight between what the corporation's trying to achieve and what the individual is trying to achieve. That's when it's most effective.

Mr. Addley: — That's excellent to hear. Now is that . . . What you're talking about is in CIC. Is that done in each of the Crowns or in most of the Crowns? Or is it at the level where you want it to be or are you going beyond that? I know you're always developing and keeping this fresh — or I hope you are — but is it to the level that you want it? And how quickly or how far is it?

Mr. Shaw: — I think my answer would be that in several Crown corporations it's fully implemented in the way I've just described. In others it's . . . that development is underway.

In the others where it isn't fully implemented, it's at the corporate level and maybe the divisional level, and they are working at bringing it down even further into the organization. So that they're varying . . . they're at varying levels of development and implementation but they are all going, if they're not there, they're all going in that right direction.

Mr. Addley: — It's a work in progress.

Mr. Shaw: — It's a work in progress, but we're getting close to completing the work.

Mr. Addley: — Okay. Well thank you very much and I just . . . I commend you on that aspect because I think it's a key indicator that it's being well run and well managed, and it also gives you an opportunity to see first-hand fairly quickly what areas aren't. So I wanted to commend you on that, and thank you for the answers.

And that's basically my questions.

The Chair: — Thank you, Mr. Addley. I just want, before I recognize Mr. Wall, to remind all members — and I perhaps should have interrupted you, Mr. Addley — to remind you that you should direct all questions through the Chair and not directly engage the officials in dialogue.

And I would also, I'd just remind officials of the same — not to engage directly with the members.

Mr. Wall: — Thank you, Mr. Chairman. A question for the . . . for Mr. Hart, or any, I guess, anyone you wanted to designate to respond.

In any of the reporting periods currently being considered by the committee, has CIC engaged in any analysis or discussion, or responded to any discussion from outside agencies regarding the potential acquisition of CPR (Canadian Pacific Railway)?

Mr. Hart: — CPR. Yes, we've had some broad discussions with a couple of investment bankers who have called because they've indicated that, as you know, CP (Canadian Pacific) corporate is going through a restructuring. There's speculation that the rail company may be in play.

There are some investment bankers who believe that a strategic buyer would be governments, not a private company, because it's — how can I describe? — there's only one potential Canadian buyer, which would be CN (Canadian National), and there's some speculation that that might not be a merger well received in Canada, have one railway, in light of the Air Canada/Canadian.

So we've had those kind of discussions, but that's been pretty much the extent of it.

Mr. Wall: — Thank you. Thank you, Mr. Hart. Mr. Chairman, another follow-up question on the same subject.

Have you contemplated any specific partners? I guess, is there any sort of a group that's emerging or that you've discussed this with? And I'm thinking specifically of perhaps some quasi public-fund organization. Quebec perhaps is one. I understand maybe potentially some Newfoundland interest.

I guess I'm trying to ask, how far along is the discussion on this and where is it at?

The Chair: — I have to admit, Mr. Wall, I am very interested in these questions also. But our purpose is, as much as possible, to stay focused on the years under review — '98 and '99 and 2000.

I also just want to remind members, Mr. Douglas had pointed it out to me, we should as much as possible try to stay away from issues that may put CIC at a competitive disadvantage in its business dealings.

Now this particular discussion, if Mr. Hart wants to answer, that's fine. But once again, we should just try and keep it focused on 2000 and before.

Mr. Wall: — I'd be happy to rephrase the question because I think that's how I started the question; I think, Mr. Chairman, I said in the first question, in any of the reporting years. And so I guess that'll be the ongoing introduction to all of these questions then.

In any of these three reporting years, how far along have discussions got on this potential acquisition? Are there partners in place? Is there an amount in terms of equity investment from CIC that's been contemplated as part of the partnership that's pursuing this?

And if it . . . you know, in those . . . and I'll restrict those questions to the reporting periods that we're currently considering.

Mr. Hart: — So you're asking was there an amount considered; were there discussions with other partners in the years?

I believe we had maybe one meeting with OmniTRAX who was interested in acquiring some branch lines. But that was really just for them giving us information about what their interest might be in this.

I've had no discussions with, nor do I think anyone from CIC has had any discussions, with anyone from Quebec.

I would describe the proposal as not very far along at all. My view is that, I mean you do the quick math on what it would take to buy CP Rail and building in some kind of a premium that you'd have to offer shareholders — you'd be upwards of 8, \$9 billion which is substantially more than the whole CIC portfolio.

So it's something that would be not very easy, in fact probably impossible for us to even consider seriously.

Mr. Wall: — Well in that time period we understand that there may have been interest. I mean Saskatchewan's interest may

have been just one of a great number of provincial interests, provincial government interests, and interest from the United States, including Amtrak.

And I wonder if you could confirm then if you've had any discussions with a group that involved Amtrak in the reporting years we're discussing; and if CIC has ever discussed the amount of about \$800 million in terms of its potential equity interest on a go-forward basis assuming that there was going to be a serious offer made for this sort of thing in the reporting periods that are under question.

Mr. Hart: — No, we've never discussed a specific amount that we would be interested in or have ever confirmed that we are definitely interested in any such transaction should it be presented to us.

I think that's all I can recall. I believe I'm the only one who's had any representation made to me. I don't know if other officials may want to comment whether they've had any representations made to them. But I'm just going from sort of the brief conversations I've had with a few people about it.

Mr. Wall: — In the reporting years, have you had any discussions then . . . or any of these very preliminary discussions, have they involved Amtrak?

Mr. Hart: — I have heard that Amtrak is interested in BC (British Columbia) assets. That's been reported to me by one of the bankers. I believe they have . . . Alaska has an interest in linking to continental US (United States) or the southern US, sort of lower 48, via rail, and that there's some tourism interest that Amtrak has.

But I've had no discussions with Amtrak. That's pretty much all I know of what they might be interested in.

Mr. Wall: — Mr. Chair, this would be obviously . . . You know, you may want to rule on this question and Mr. Hart may wish not to answer, but he may want to answer in light of . . . to clarify some things.

Can you rule out then any ongoing interest on the part of CIC, any venture, any partnership that would be pursuing the acquisition of CP Rail?

Mr. Hart: — Well I couldn't rule anything out because as you know, I mean, we have a broad portfolio and we have a mandate to look at any opportunity that might be of interest to the province or developmental. So I wouldn't, you know, I wouldn't tend to say in that context: rule anything out.

I would just sort of refresh my earlier comments which is, it would be a pretty big whale for us to try to swallow even a part of. And it's not clear to me what the benefit to Saskatchewan would be. So until someone could show me that, and to date no one has, that's about where it stands.

Mr. Wall: — Just to return very briefly to an earlier question. In the reporting years under, that we're currently discussing and indeed this annual report, Mr. Chairman, the question would be . . . You mention Amtrak's potential interest, I think, in BC Rail in terms of connecting the two — the state of Alaska and the

rest of the United States.

If I'm interpreting you right then, I ask the question: in those reporting years had you been in any discussion with anyone representing or involved with Amtrak who may be interested in the acquisition of CP Rail, not BC Rail? So I just would ask you . . . give you another chance to answer that question.

Mr. Hart: — State the question again.

Mr. Wall: — Yes, I'm not phrasing it very well. I apologize for that.

Mr. Chairman, the question would be: in the reporting periods currently being considered by the committee, has CIC, yourself, or any other officials of CIC entered into discussions with any group or partnership that was interested, even on a preliminary basis, in the potential acquisition of CP Rail that included Amtrak?

Mr. Hart: — Any discussions. Well I don't know who the parties we've talked to have an interest in, so I can't answer the question in the sense of knowing for sure that they have any connection to Amtrak or not. That's never been represented to me, that they do have a specific partnership relationship with Amtrak.

Mr. Wall: — Mr. Chairman, just a question and maybe . . . just to change gears a little bit here. A question on the now-expired Crown Tendering Agreement. And Mr. Shaw is here today and so . . . I don't know, maybe, I guess it would be whomever you designate to answer the questions.

But a few questions I guess with respect to the 21.5 cents that has been basically the result of this Crown Tendering Agreement that goes for the development of the trades. And I mean there's . . . I don't want to go through the whole thing, we all know what it is purported to go for. I think it's 21.5 cents an hour or was. I mean the agreement's expired.

Has CIC ever asked for an accounting of that money? Have you asked the trades to demonstrate exactly how that money has been spent? How it has been used for the development of the trades and for further education and all of the good things that 21.5 cents was supposed to go to?

Mr. Shaw: — No, we have not.

Mr. Wall: — And so then in none of the reporting periods. Well, I guess, this thing expired December 31, 2000. And so if someone had directed CIC, either the minister or even — I guess the auditor likely wouldn't, but maybe its own auditors — that that might be a good question to ask, what would have been . . . would CIC think that was a pretty good idea to actually find out what value they were getting for this money?

Mr. Shaw: — Mr. Chairman, I'm not sure I quite understand the question. If we had been directed to carry out an audit or to examine into that matter, we would have done so. We weren't and we didn't.

Mr. Wall: — Fair enough. Do you know the amount over the period of the agreement, for as long as it was in place? Can

you please provide the committee — well I guess for three periods we're considering right now: '98, '99, 2000 — can you provide us an amount that has . . . the total amount that has gone to this fund?

Mr. Shaw: — I'll undertake to do that. I am uncertain how accurate it will be, but I will bring back as much information as I can. And I'm uncertain as to how long it will take to get it. But I will get on it today.

Mr. Wall: — Is there any reason that we wouldn't know the exact amount we've paid into that over the, for example, for the three years in question? I hear there's some doubt as to whether or not we know that amount.

The Chair: — . . . notice of the question, Mr. Wall; have endeavoured to bring back a report.

Mr. Wall: — Well I think they have. But they've also qualified it by saying, to the extent that they can ascertain that actual amount. And I think that's pretty germane; an important question to find out in these three years that we're considering, is this figure — the exact figure — absolutely available or not?

The Chair: — Once the officials have taken notice, we'll allow them to return to the committee with the information at which point if there are questions, we can certainly pursue them at that point.

Mr. Wall: — I understand that during the life of the agreement negotiations were ongoing between the various parties involved and the Crown Construction Tendering Agreement. And so during that period of time, during those negotiations, did CIC in those three years, did officials representing the taxpayers, the government, ever ask even for anecdotal evidence, a demonstration of the use of this 21.5 cents an hour?

Mr. Shaw: — Mr. Chair, the question is prefaced by saying that there is ongoing negotiations. The agreement was negotiated and signed in 1995, I believe — I'm not sure of the exact date — and had a sunset clause of five years. And at the end of five years, it did in fact sunset last year.

I'd like to correct my answer. We did in fact extend it for a period of nine months so that it did expire at the end of December of the year 2000. So it was a five-year, nine-month agreement.

During that time the requirements were, as you describe, that funding would be provided. We didn't do an accounting or an audit, and my answer has been in response to your request that we will provide a report on the amount of money that was raised through that mechanism.

Mr. Wall: — But the CCTA (Crown Construction Tendering Agreement) . . . Mr. Chairman, just so I'm clear on it, the CCTA has expired December 31, and we're operating under some other sort of tendering procedure as regards the Crowns from that basis . . . or from that date.

Mr. Shaw: — What we're operating under are the usual tendering policies of the . . . we're speaking now of Crown corporations. We're operating under the usual practices of

Crown corporations in tendering, guided by a set of guidelines which were issued in March of the year 2000, which set out kind of the general goals and objectives that the government has with respect to capital construction in Saskatchewan.

So all the Crowns are following those general guidelines which were, I might add, generally well received by all participants in the industry when they were issued.

Mr. Wall: — I'm going to yield at this point certainly, Mr. Chairman, and make way for someone else to ask some questions, and thank officials for their answers.

The Chair: — Thank you, Mr. Wall. We have about, I guess, 15 minutes left for questioning before we would near adjournment. I have Mr. McCall and Mr. Wiberg on the list.

Mr. McCall: — I guess just if you could clarify, related to an earlier line of questioning, with regard to the question of CPR. Would it be accurate to say that they were calling . . . or representatives were calling you, and it wasn't CIC going out looking for an opportunity engaging . . . involving CP.

Mr. Hart: — That would be correct, yes. But they, I mean there were . . . as you may know, investment bankers are always looking for deals that they can put together, and there was some speculation prior to the announced breakup of CP that it was going to be broken up. There was some speculation that the rail company was not strategic to the corporation any more and would be sold. And there were people that initiated calls to us to see whether we had any interest in pursuing it.

So we didn't initiate anything. We just simply responded to people's calls. That's all.

Mr. McCall: — I guess now to switch gears. Much is often made of the governance structures of CIC in different ways. But over the past three years, the reporting years that we're looking into, I believe there have been a number of changes made to the governance structure, and particularly involving the Crown boards.

I was just wondering if you could expand on the . . . or summarize and expand on the changes that have been made to the Crown boards in the past three years.

Mr. Shaw: — I certainly can. Mr. Chair, if members had the copy of the presentation that we handed out last meeting and spoke to, I would direct you to page 8 of that document. And you can see a number of initiatives that have taken place with respect to improving governance at the Crown board level.

Beginning in 1998 when the first appointments were made following the decision by government with respect to the Crown review and directions from government as to what improvements were to be made in governance and accountability, you can see that we instituted a very detailed and rigorous training program, training and development program, for individual directors of Crown boards.

I might add — we're now into our fourth year — and I might add that the reception of this training by the directors has been overwhelmingly positive. And they find that the information

they're getting and the insights they're getting into what is leading practice in terms of governance and the duties of directors at the Crown board level, is helping them very significantly improve how they are managing their companies.

The training has covered a broad range of topics from descriptions of roles and responsibilities, risk assessment in a company, corporate governance, personnel management, information management, how they do evaluation of their own performance and set goals, building sustainable strategies, that training program. And actually, at the end of last meeting, I did table a report to this committee, a comprehensive report on that training program which I think might be of interest to members.

So one of the first developments and improvements that has been made is in the level of knowledge and ability of the individual directors. Obviously they come to the board with skills and abilities and aptitudes. But some are somewhat new sometimes, to corporate governance, and it's important for us to ensure that all the directors of Crown corporation boards have a similar leading edge knowledge of their roles and responsibilities and what good governance looks like at the Crown board level.

Also we have established or the Crown boards themselves have established very disciplined committee structures and have established terms of references and roles and responsibilities for individual board members and accountability structures. We have developed a code of conduct. In conjunction with the directors, we've developed a code of conduct for directors. And that's another report that I tabled with this committee at the end of last meeting.

In terms of accountability, we started off in 1998 with the boards themselves doing evaluations of their own performance, self-evaluations. In 1999 we moved on to evaluations by the directors of the Chairs of the boards and the Chairs of the committees. Last year we moved to self-evaluation by the directors. And this year we're moving into peer evaluation by directors, which is very much at the leading edge of governance practice, I can tell you.

In terms of communications, very substantially improved communications between the operating companies and the holding company and the cabinet. We have regular reports each month from the Chairs of the Crown corporation boards to the holding company. It's a standing item on the holding company's agenda. We have the balance scorecard which is in itself a communications mechanism. Mr. Hart chairs a forum between CIC officials and the Chairs of Crown corporation boards.

So these are developments in communications that have been put into place to ensure that both up the communications chain and down the communications chain, there's open discussion of what the expectations are and what the issues are.

So that's a brief survey of improvements that have been put into place in the last three years in the area of governance at the Crown corporation board level.

Mr. McCall: — I guess, getting back to the board of directors themselves, what would the criteria be for their selection?

Mr. Shaw: — Well we have . . . we actually have an ambitious set of criteria to try to manage to. We want, quite clearly, we want highly skilled individuals on the Crown boards. And of course skill sets come in varieties of packages.

We also want to ensure that to the best, to the extent that we can . . . when I say we, I'm talking about . . . I'm not speaking on behalf of the government. But the government wishes to have broad representation on its board of directors. So we're looking for representation from urban as well as rural constituencies. You know I don't mean constituencies politically, but rural versus urban.

We're looking for diversity. We're looking for representation from the professions, from business, people representing communities and community organizations. So we have a fairly demanding set of criteria which we try to, as best we can, to match on each board.

That's the goal. And then of course each individual board has a set of specific skills and skill sets that it would like to have on the board.

Mr. McCall: — Now how would, in terms of the governance structure broadly and the performance of the board of directors, and you've touched on it somewhat — again, how does this compare to what's going on in the private sector?

Or would these practices be in line with the standards being kept in the private sector in terms of best practices and what have you. How does it stack up?

The Chair: — As amazing as this is, I'm having difficulty hearing you, which is the opposite of our time together in the House. But could you just speak into the mike directly.

Mr. McCall: — How do you stack up to the private sector and to similar holding outfits across the country?

Mr. Shaw: — Well, Mr. Chair, we wanted to know the same thing, and so last year we engaged The Conference Board of Canada, which as you know is a non-profit organization which has many interests, one of which, stretching back for 25 years, is the area of corporate governance. And they've been doing research and tracking progress and keeping information on corporate governance for that period of time.

And we asked them to benchmark our practices against leading practice in Canada. And we found two important things. One is that Canada, according to The Conference Board of Canada, leads the world in terms of governance and governance improvements and governance practice. And that Saskatchewan benchmarks in what we call the top quartile, the top 75 per cent of companies in Canada whether or not they're private sector or government owned. So we think we have sound and solid governance practices.

And one of the things that we continue to do through our staff who are responsible for the governance practices is to continue to remain current and to continue to understand what still can be done and what are the leading practices that are available.

Mr. McCall: — Thanks very much. I cede to Mr. Wiberg.

The Chair: — Thank you, Mr. McCall.

Mr. Wiberg: — Thank you very much, Mr. Chair, and I thank Mr. McCall for giving me an opportunity to get in here in these last 10 minutes this morning. Welcome, Mr. Hart, and your officials.

Mr. Hart, I noticed that last week in your presentation, Mr. Fix talked about venture capital and venture capital coming into Saskatchewan; the lack of enthusiasm in general for venture capital to be coming into Saskatchewan.

And I guess I'm just wondering as I look around the world and see that corporations such as Weyerhaeuser, who have holdings all over the world, corporations such as COGEMA having holdings here — a French corporation — that there seems to be a need that is felt by CIC in this province for public investment as opposed to more extensive private investment.

I'm wondering what your thoughts are around why there is such a lack of enthusiasm for private investment in Saskatchewan at this time.

Mr. Hart: — Maybe I can begin answering that and ask my colleague, Mr. Fix, to add to it if he wishes. I wouldn't say there's a lack of enthusiasm. I mean we are regularly approached by people who are interested in investing and are looking to amass capital of one form or another to have a project proceed in Saskatchewan.

What we were referring to specifically was in the early '90s, I think if you look at the general statistics for venture capital formation and investment in Canada . . . in Saskatchewan in that context, you would have seen Saskatchewan leading in terms of the formation of venture capital and so forth.

That was largely because we were very active as a province in the immigrant investment program. And that was providing a good source of the capital, some of which was, if I can use the phrase, publicly sponsored in the sense of SGGF (Saskatchewan Government Growth Fund Ltd.). A good chunk of it was also, in fact as much or more, probably privately developed.

Then there was a change in regulations federally that made it more difficult for private venture capital companies, using the immigrant investment program, to amass capital because of some of the issues that happened in various parts of the country.

And so we began to see a shift in the venture capital industry generally, away from immigrant investment programs to pension funds and tax labour sponsored, tax supported kinds of programs.

Saskatchewan was less aggressive in moving into the pension fund, attracting pension funds into that area specifically. And as a consequence, we've seen less formation of venture capital in the province than we otherwise would like to have seen as compared to, say, British Columbia and Manitoba which have strong pension fund supported venture funds.

So we're having to, in fact, as we see the remainder of the immigrant investment supported venture funds wind down — because everybody is basically getting out or has gotten out of

the program — under the new federal rules, essentially governments have to guarantee the immigrant investors funds and we had no interest in doing that. Under the old program, the immigrant investor bore all of the risk.

So we've been essentially retooling our approach to try to encourage and support private venture funds forming. I think Mr. Fix may have alluded to a couple that we've announced recently, one with . . . a couple with Royal Bank, Primaxis, and Foragen, and others, you know, that I have under discussions with private partners.

But, Mike, you might want to add further to that, I don't know.

Mr. Fix: — I think that's a fair summary.

And I just distinguish between sort of the large industrial projects and the availability of capital for the COGEMAs and the Weyerhaeusers versus the availability of capital for the smaller medium-sized businesses. And I think that's sort of what Frank has touched upon in his comments.

Mr. Wiberg: — Thank you very much, Mr. Chair. To the officials, as I noticed in your presentation last week, Mr. Fix, is that you mentioned that venture capitalists have a tendency to want to be able to see where their monies are being spent. You alluded to the fact, you know, they like to . . . within one or two hours of where they are physically.

And certainly for the big players in the world, it's not a possibility, and certainly for maybe the medium-sized and smaller operators, I assume then is what you're alluding to?

Mr. Fix: — That's right. And as a consequence of that, in trying to get them within that sort of geographic preference that they have of being within an hour or two as you mentioned, the formation of the funds and the presence of those funds in the province where they can actually, you know, drive out or get to the investments within an hour or two, we believe will do a lot in sort of developing the venture capital capacity in the province, and the access of capital for the small- to medium-sized businesses.

Mr. Wiberg: — Thank you very much. Mr. Chair, then has, in the last couple of years, CIC, through their subsidiaries, become . . . they're exchanging the strategy. Mr. Hart, you spoke about the funding that has been lost because of the guarantees that now have to be put upon the immigrant investment, and so you need to change your strategy.

What strategies have you done then, in the last couple of years, to be able to attract private investments and attract those investors to be able to set up shop here in Saskatchewan so that those monies would be available to the small and medium-size industrialists that would like to expand into Saskatchewan or expand their existing operations in Saskatchewan?

Mr. Hart: — Well as I indicated, what we've specifically been doing is trying to encourage private venture funds to form here, with a particular focus on the market as they would define it. In the case of the Royal Bank Ventures, for example, they were particularly interested in the biotechnology area, ag-biotechnology. And as you know, Saskatoon is one of the

world centres in ag-biotechnology.

So, you know, they felt there was a good opportunity to develop a venture fund around that. They solicited us, asked if we would participate. I mean we have a fair bit of expertise in the investment business. Obviously with a portfolio that's seven and a half billion dollars for private funds like Royal Bank Ventures, it means they can get into the business, rely on our expertise. The quality of our due diligence is generally quite high, and so they have a high confidence that . . . working with us.

And of course the benefit for us is we attract their capital into Saskatchewan, which is one of our objectives, plus to build a — I mean we don't operate the fund, they operate the fund; we simply are an investor in the fund — but that builds private sector management of the venture capital business which is our objective.

So our real objective here is to build pools of capital, and private management of that capital for the benefit of Saskatchewan entrepreneurs who are looking to grow their companies.

Mr. Fix: — Just if I might add to that, in sort of the capacity-building element, there's the capital and then there's the expertise. And in the Foragen model for example, they've also established an office in Saskatoon, Innovation Place, where entrepreneurs have access directly to a person in Saskatchewan versus sort of the telephone conference to Toronto or Calgary or elsewhere.

So that's an element of what Frank was referencing as well.

Mr. Wiberg: — Thank you, Mr. Chair. I guess that opens up then a whole new line . . . or another question here.

What I'm trying to understand I guess is, is you're talking about you know getting into partnership with the Royal Bank and certainly they can come to the table with, with some pretty good financial backing. I'm wondering then — and I'm certainly not going to belabour or argue the point that CIC certainly has expertise that could certainly be used in the area of investment — but I'm wondering, with the abilities of the Royal Bank and its abilities to handle monies throughout the world, what CIC would be able to bring to the table in the way of expertise, putting yourselves up against the Royal Bank?

Mr. Hart: — Well you might ask the Royal Bank that question. But they were the ones that approached us and asked us to participate. Mike, I don't know if you can add anything to that?

Mr. Fix: — Yes, I think, not unlike CIC and its investment approach with very specific projects, what we look is to you know share risk, mitigate risk by having partners. And you know although Royal Bank has quite a financial depth, you know I'm sure they're thinking along the same lines — looking for a good partner who might be able to provide value at the due diligence level, the referral level, some element of . . . and board representation. But also to share some of the financial risk amongst partners equally — shoulder to shoulder; if they do well, we do well; if we do well, they do well — and the structure of a good partnership.

The Chair: — Thank you. And with that, we are at 10:45. We do have other members on the speaking list but we will pick up where we left off, where we're leaving off . . . next week, I believe at our usual time — 9:30 — if that's fine with members.

Mr. Shaw: — Mr. Chair, last week we took notice of a question from Mr. Wall, and we said we would bring back information. We have a very short report here which I would like to table with the committee.

The Chair: — Okay, we will consider that document tabled. We'll circulate it.

And I would accept a motion to adjourn. It's moved. All those in favour? It is carried. The committee stands adjourned.

The committee adjourned at 10:45.