



Standing Committee on Crown Corporations

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**STANDING COMMITTEE ON CROWN CORPORATIONS
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Regina Victoria

Pat Atkinson, Vice-Chair
Saskatoon Nutana

Greg Brkich
Arm River

David Forbes
Saskatoon Idylwyld

Yogi Huyghebaert
Wood River

Carolyn Jones
Saskatoon Meewasin

Don McMorris
Indian Head-Milestone

Peter Prebble
Saskatoon Greystone

Kim Trew
Regina Coronation Park

Brad Wall
Swift Current

The committee met at 09:37.

The Chair: — We are ready to proceed. Just a couple of housekeeping matters. I'm hoping that we can adjourn at about 11:15 or so today and try to have a break around 10:15, 10:20 for 10 minutes or so, said he hopefully.

Members are reminded that our session next week is scheduled again for Thursday morning and that's to deal with the agenda item that we outlined last time, and that's the question of pay information. And so whatever officials need to be here on the part of the Crowns and part of the Provincial Auditor's office, and perhaps we might also ask the Information and Privacy Commissioner to attend as well at that meeting.

And having said that, we're back to consideration of the Crown Investments Corporation. No questions?

Mr. Wall: — I didn't know if we were going back to Mr. Forbes or not.

Mr. Forbes: — Well I'd like to pick it up later but you can go first.

Crown Investments Corporation of Saskatchewan

Mr. Wall: — Okay. Thank you very much, Mr. Chairman, and to officials again for joining us this morning for the next couple of hours.

We were talking a bit about the potential Broe deal at the end of the last meeting. A fairly direct question: was CIC (Crown Investments Corporation of Saskatchewan) at any time considering that the deal with Broe would involve CIC, in addition to its own contribution in equity and debt, guaranteeing any of the project debt or Broe's debt? Well I guess the project debt.

Mr. Hart: — Mr. Chairman, we have not seriously considered that option. It has been a tool that has been used in the past I think, as Mr. Douglas pointed out in the case of the oriented strand board mill that's now being built in Meadow Lake. We are a 25 per cent equity holder in that; Tolko's a 75 per cent equity holder. There are guarantees provided by both CIC and Tolko proportionate to their equity share, and several guarantees.

We, I think in theory, would be willing to consider that if we needed to. But we took a decision some time ago that both from ourselves' and Broe's point of view that we'd look for non-recourse financing for the project, which means that we would not be guaranteeing the debt nor would they. And that's been the method under which we've gone forward and sought senior financing for.

Mr. Wall: — So it was, it was an option but not . . . Let me ask this question then directly. The review that we talked about as well that you've actually . . . Well you've disclosed the Scotia Capital review of the deal at a cost of \$25,000. Did that, the deal that they reviewed, the deal that Scotia Capital reviewed initially, the arrangement initially, did that include any guarantee of debt by, proposed guarantee of debt by the

Government of Saskatchewan?

Mr. Hart: — We did not ask Scotia Capital to review the financial structure of the deal. What we asked them to review was the business plan, which looked at the underlying assumptions behind which the pro formas were based, and to determine whether or not the projections for the operation were fair and reasonable — things like the price of grain going in, the price of ethanol coming out, the price on natural gas, the cost of the technology. Those kind of variables are fundamentally critical to the potential success of the business. So they were not asked to review the financial structure.

And we have not ever really seriously contemplated any kind of a guarantee structure. The subject I think may have been raised in passing, but it's neither Broe's intention nor our intention to guarantee. Therefore neither party has shown any interest in approaching the financing in that way.

Mr. Wall: — Thank you, Mr. Hart, and Mr. Chairman. So the Scotia Capital isn't, hasn't . . . Their review hasn't weighed in at all on the matter of whether . . . on the propriety of or the security of the taxpayers' investment or the Government of Saskatchewan's investment in this venture. Rather it's more to do with the business case per se.

The reason I think that's an important question is that you know these reviews I think are welcomed . . . are a welcome sort of development from the SPUDCO (Saskatchewan Potato Utility Development Company) situation.

Even though this one predated the Premier's commitment to these kinds of reviews, I think it's been highlighted by the government as an example of the kind of review that will help us avoid — as taxpayers, as a province — the pitfalls of the SPUDCO scandal. But to me that would be . . . well it's exactly what the Premier characterized it as — and the member for Nutana is giggling and that's fair enough I guess — but that's exactly how the Premier characterized it.

But if we're not reviewing . . . but if these . . . if Scotia Capital's not looking at the terms of the deal, at how it is that taxpayers' investment in this thing is protected or secured, to me that flies in the face of claims that the government has made — not CIC, but politicians have made — that this is a part of a process to safeguard against this from this happening again.

And I guess then the question would be, does CIC plan to engage Scotia Capital or some other firm to actually look the terms of the deal, however it comes out, in terms of how secure the taxpayers are in all of this and how secure their investment is?

Mr. Hart: — Well our view is that the deal will be done on commercial terms which . . . and the terms for it will be fully disclosed when it's done so that there will be, you know, complete kind of public information on, sort of, how much money we're putting in, what security we'll hold for that, who the other partners are, what security they'll hold for that, who's sort of in what order of security in the deal. All that kind of thing will be there for the public to see. We haven't contemplated the need for a third party review on the deal

structure itself since it will in all likelihood be made fully public when it's done.

The Scotia Capital review was done essentially to determine, are the underlying assumptions behind this business valid? And they did conclude that if anything, our assumptions were conservative. So on that basis we felt confident to approve our investment in the project.

It would have been premature to ask them at any event to do that because the financial structure is not done until essentially all the terms are negotiated anyway and we're still in that process.

Mr. Wall: — Thank you, Mr. Chairman. Anecdotally, you know, we hear — and it's just that it's sort of very subjective — but we hear that the Shaunavon proposal is, you know, it's continued along and the due diligence there has been very extensive and the partners already involved in that (a) have ethanol, direct ethanol processing experience, and also those partners who don't have ethanol experience might have some considerable marketing expertise to bring to bear and also some significant financial resources to bring to bear.

I think that after the whole Sunoco discussion or Commercial Alcohols and Sunoco discussion happened where we may have agreed to disagree on the various developments there, there was an indication though from CIC, from yourself, that there was a letter of understanding that had been assigned between — maybe that's not the right term but some sort of a commitment in principle — signed with Commercial. So what could you give us as a status report on that and what CIC's assessment is then of that Shaunavon project?

Mr. Hart: — I'm advised by my officials that you are correct. We have an MOU (memorandum of understanding) with Commercial Alcohols, broadly speaking. I don't know that it's specifically Shaunavon, but Commercial Alcohols is a partner as proposed in the Shaunavon project.

We've received information from the Shaunavon folks; we've reviewed that information. I think we've communicated back that in principle we're still interested in supporting the project, however we need to see who all of their equity partners are and their commitments before we can go forward with it. And that's the process, I think, that's underway still with that. But they are, I think, making some progress in terms of lining up their other equity partners, one of which is Commercial Alcohols.

Mr. Wall: — But it's fair to say there would be . . . And in terms in the queue of all of this, because the government announced actually three Broe plants, I think, and said actually in the fall that we would be hearing two more, or that we'd be hearing the announcements of the other two early in 2003 — but of course we haven't — and so what's the status there? Is it still . . . Is this Broe concept still looking at three different plants and what's sort of the queue? What's the lineup for these three and for the Shaunavon deal that the government's going to also invest in that one as well?

Mr. Hart: — I think, Mr. Chairman, members may recall from a press conference that I think was initially . . . was held by the Broe Companies some time ago, their intent was to build four

plants, one of which was a partnership with the Shaunavon group. Subsequent to that there was, I think, a parting of company between the Broe Companies and the Shaunavon group over, largely over the size of the plant. The Shaunavon people have in mind to build a much bigger plant than Broe was contemplating. I think they are proposing, the Shaunavon folks that is, are proposing a plant that is in the range of 150 million litres if I'm not mistaken — 30 million litres of which would go into industrial alcohol for spirits and window fluid, windshield washer fluid, a variety of applications like that; the balance of which would go into fuel-based ethanol.

And so then I believe Shaunavon began pursuing discussions with Commercial Alcohols and we've indicated, as been our policy, that we will look at all projects that come forward and consider them on the same, relatively the same terms. And in terms of the . . . So that leaves the other three plants — the Belle Plaine plant, the Yorkton-Melville area plant, and the Tisdale plant — still in partnership with the Broe folks. And there the status is, the engineers and bankers have advised that they want to see one plant started before there are serious discussions about plants two and three.

And I believe there's some interest from at least the Tisdale group in investing in the Belle Plaine plant to start getting involved in the business because at some point they, I think, anticipate rolling all three plants into one corporate structure.

So the Shaunavon one is a stand-alone facility under a separate track that we are talking with the Shaunavon folks about. And the Broe plant, the focus on that is getting Belle Plaine up and running first and then turning to plants two and three. I'm not sure which, in which order Broe plans to go, whether they will go to Yorkton-Melville first or Tisdale first but there's obviously going to be some discussion over the next several months about that, I presume once they get Belle Plaine under construction.

Mr. Wall: — And what about Weyburn? What about the Weyburn proposal which I think they've had some discussions with CIC as well, have they not?

Mr. Hart: — Very preliminary, I think.

Mr. Douglas: — I've not much more to say other than that, Frank, that we continue to speak to them from time to time and their project is coming along, but I don't think we would be able to say that we're in active discussions with them right now.

Mr. Wall: — I want to switch subjects, so if anybody wants to get on . . .

Mr. Forbes: — Sure, I'll pick up from where I was talking about last week and in the House, about taxpayers. And yesterday in the House the member from Swift Current made some comments about, and it's about the Broe deal, and this is a question actually for the auditors, the officials from the auditor's department.

And the comments in the House talked about how much money did the taxpayers lose on FarmGro, a taxpayer-funded deal. The use of the word taxpayer. And it's my contention that a more appropriate word would be public affairs, public good, or public

money.

And I notice in your press release and throughout your report you talk about public businesses made public and public money. Which is a more appropriate term to use when referring to the money that . . . or money in that kind of case?

Mr. Montgomery: — Well we obviously feel that public is a more appropriate term from our point of view. We always use public in all of the documents we put forth.

Mr. Forbes: — Now why would that be?

Mr. Montgomery: — Well because not all the public are taxpayers, I guess.

Mr. Forbes: — Is this part of standards that accountants and auditors use throughout the country?

Mr. Montgomery: — No, no, it's just our interpretation of the legislation and how we see the world, I guess.

Mr. Forbes: — The reason I ask this, Mr. Chair, is I find it very interesting. I was just reading about the inheritance Acts in the United States just prior to the last presidential election, and they were talking about the inheritance tax and the opponents to it call it the death tax. And of course everybody got quite up in arms because everybody dies and it's quite alarming. But really the American inheritance tax only affects a few people.

And so I see some parallels here because we want to talk about public good and how can we serve the public best in Saskatchewan. And when we keep talking about taxpayers and taxpayer dollars, that type of thing, and I think that's interesting that you use the phrase public dollars and public good.

And I just happen to have . . . you know and maybe I'll come back to this. I notice too that in the appendix 1 when we talk about The Provincial Auditor Act, it does talk a little bit about . . . in section 2 — and I just flipped to this just now — where you define public money means all revenues and public monies from whatever source arise and whether the revenues and monies belong to the Government of Saskatchewan or collected by, or held by officers of the department of government.

So I think it's very interesting. I think this is a point that could serve us well, Mr. Chair, through this deliberation and so . . . about tax and taxpayers and the kind of things we see for people in Saskatchewan here. So I don't know if you have any further comment from the auditor's department on this but . . .

Mr. Montgomery: — No.

Mr. Forbes: — . . . I think it's an important point that we use the correct terminology. Thank you.

Mr. Wall: — Thank you, Mr. Chair. Well just on that note I guess before we can get into the next subject here today, I wonder if the auditors would characterize anybody that actually makes a purchase and has to pay PST (provincial sales tax) on that purchase, if they consider them a taxpayer.

Mr. Montgomery: — Certainly they're paying taxes.

A Member: — Right, thank you.

Mr. Prebble: — I do want to have some further clarification to the Provincial Auditor. Is it correct to say that there are . . . that nobody's taxes that are paid in the traditional form that the auditor's department views taxes, nobody's taxes are utilized in CIC investments over the last decade? Is that fair to say?

Mr. Montgomery: — To the extent that any investment would be coming from the General Revenue Fund, it would be coming from taxpayers' dollars.

Mr. Prebble: — Right. And have there been any investments from the General Revenue Fund by CIC over the last decade?

Mr. Martens: — Well the GRF (General Revenue Fund) has invested over \$1 billion in CIC for its various purposes, so it is . . .

Mr. Prebble: — In the last decade?

Mr. Martens: — It's a cumulative amount so . . .

Mr. Prebble: — Right. But in the last decade has any money been put in, is what I'm saying.

Mr. Martens: — No.

Mr. Prebble: — What's the answer to that, sir?

Mr. Martens: — No.

Mr. Prebble: — And so the monies that were put in from the GRF are prior to the last decade?

Mr. Martens: — That's right, yes.

Mr. Wall: — I think we're seeing part of the problem with the government is that they don't consider money in the Crown corporations, monies that the Crowns are investing as taxpayers' money. And arguably it's taxpayers' money, and that's the problem. That's the problem . . . (inaudible interjection) . . . Now it's not public money.

Ms. Atkinson: — It is public money.

Mr. Prebble: — No, no. It's public money; it's not taxpayers' money. You know there's an important difference here but we'll debate that once our officials are . . . once you've had a chance to finish questioning our officials.

Mr. Wall: — Sure. That would be, I think, very good.

Mr. Prebble: — It's a source of debate rather than a source of a question.

Mr. Wall: — Well and as it turns out, most people, I mean the people of the province I think also consider themselves taxpayers. So I think the right-wing ideologues and the people of the province use that terminology, and rightfully so.

Mr. Chairman, we've been talking a little bit about the third party payments that CIC has been making. And they indicated

that some money had been spent on research and survey and consultants and including, including, Mr. Chairman, what we now know from a written question that was answered quite forthrightly by the minister with respect to some polls that CIC has been . . . had done in 2002. We hadn't put a date on the written question. The year under review is 2002. If officials want to confirm as to whether or not similar polls had been commissioned by Crown Investments Corporation currently, you know that's fair enough.

But even in the year under review here we have the answer that says that CIC commissioned two surveys in 2002 regarding customer perceptions and attitudes towards the Crown corporations. And then in answer to the question whether that would be made public or not, CIC officials . . . or the minister I should say, I beg your pardon, the minister would have answered in a written question that the results of the survey will not be made public because they contain information that would be of interest and assistance to competitors.

And we had this whole . . . We've been having this whole discussion. We will again next week when the auditor and the CIC officials make their cases for what is the appropriate amount of disclosure. And one alternative that I think is interesting and reasonable for these kinds of issues was raised again by the Premier in a scrum and I think on CBC (Canadian Broadcasting Corporation) radio yesterday — I heard it going home — where he mused as well as the auditor has about the possibility of sensitive material being provided to members of the committee in camera where there is an undertaking to keep that sort of thing confidential.

So we're going to resolve these . . . We're going to discuss this next week I understand, Mr. Chairman, and I'm not trying to take us in that direction now. However on this specific question then, in order to try to make it more feasible for officials to release or to give us some information about the kind of surveying and polling that Crown Investments Corporation is doing, would you . . . If we said, look, we are not interested in the results — obviously the results is what you'd consider to be sort of the kind of information you wouldn't want to keep from your competitors — so not the results of the questions, but could we get all of the questions that you asked in those 2002 surveys provided to the members?

Mr. Hart: — Well I'd have to defer I think to the discussion next week in terms of the . . . how granular we get with regard to the release of the information. Certainly there's been a lot of work done by not only ourselves, the Crown corporations, the Provincial Auditor's office over the last two years at least on this process. I think the auditor has a . . . Provincial Auditor has a pretty good feel for where the resistance is from Crown corporations in disclosing detailed information.

We have a pretty good sense of where the Provincial Auditor would like to disclose. Our sense is that at the end of the day we'll do as directed by the committee, and that's what we've done in the past. Certainly today we disclose executive salaries, travel by executives, and consultants paid over \$10,000.

I think the auditor has an interest in going into some level of disclosure around suppliers, but I don't know that we've discussed specifically kind of down to the question that you've

raised, Mr. Wall, in terms of whether the questions themselves would be disclosed either in camera or publicly. But that's certainly something that I think we could follow up with the Provincial Auditor and determine whether that's, in their view, material to what they're trying to accomplish here. You know, it's an open question in our mind but I think it needs to be discussed with the Provincial Auditor or debated at this committee in terms of how you would prefer to see disclosure.

Mr. Wall: — Well a government releases its polling and questions, Mr. Chairman, as you know and as members will know, and so in this case trying to be extra sensitive because we haven't had that discussion yet, we're trying to be constructive and sensitive to your concerns as you've laid out in the answer to your written question here to the minister by saying look, we don't need the answers.

I mean, it's clearly going to be the answers that AT&T would be interested in with respect to questions about SaskTel, not the questions. Every corporation must ask the same questions.

So could we not get . . . And I'm not sure why . . . If you could explain why the questions would be of interest or assistance to competitors or why that would be dangerous for members of the committee and people of the province to see the questions that you're asking in the survey, not the results?

Mr. Hart: — Yes. Well I don't have an opinion on that at this point in time. We'd have to reflect a bit more because I'd have to go back and think about all the specific questions that are in those.

There is a level of disclosure that's starting to happen from that information already in the sense that, as the Provincial Auditor knows, we have established, some time ago, a balance scorecard method of performance management for our Crown corporations. So every year, CIC sets out a Crown sector strategic plan which has in it, essentially, four quadrants; financial objectives, customer service objectives, public policy objectives, and innovation and learning objectives which is kind of code for people development, skill development, advancing sort of new business processes, that kind of thing — innovations. And those quadrants are in the annual reports of CIC.

And one of the reasons that we do this customer service tracking, at a high level at least, is to have a standard instrument across all Crown corporations so that we can say, for example, as the overall perception of customers of, say, SaskTel or SaskEnergy, kind of pick your Crown. And we don't include every Crown in this business but the major ones we do. And from time to time, we'll throw in sort of a question about Information Services Corporation, for example or some other Crown.

And it measures the sort of level of satisfaction in time series. Are, generally, people satisfied more so than they were last year or from the last survey point, less so? Do they see the company as acting honestly? You know, these are the kind . . . I'm just giving you kind of a sample of the kinds of questions that are in the questionnaire.

And so, there's some level of disclosure that we're starting to

put in our annual report now that sets a benchmark for where we see customer service and we'll report against that benchmark. So we're going partway down that road already.

But I take under advisement your question and I think it would be good for us to come back, perhaps next meeting, with some further thought on that issue.

Mr. Wall: — You've been providing some insight into the kinds of . . . some of the kinds of questions that that survey would be asking.

Are you asking questions of alternatives for the Crowns, what the customers or the Crowns think about 100 per cent public ownership, some change to that? Are those kinds of questions also asked in these surveys?

Mr. Hart: — Yes, there would be a question typically in the survey. One question may be, for example, on how do people feel about privatizing Crown corporations; is there strongly agree, strongly disagree — you know, those kinds of things — moderately agree, whatever.

And I think those are the questions that are asked from time to time just to establish a benchmark as to whether there is in fact a public desire to dispose of certain assets. We don't always ask the question. Sometimes it's asked specifically with a particular Crown corporation; sometimes it's not. But it depends on kind of how many other questions are in the survey from time to time because we change a little bit from one survey to the next.

Mr. Wall: — Well, Mr. Chairman, I think that kind of questioning is not dissimilar to the kinds of polling that you do, that we see the government doing in its general polling that is released and made public when the government's asking about public policy issues and it releases those numbers.

And that's why more than . . . I appreciate what Mr. Hart's saying here about taking it under advisement. I think we need to be a little bit more . . . I think it needs to be a little bit more than that.

We will have the discussion next week but I cannot see the reason why the government, for example, would not want to release the general public policy questions that are being asked in its surveys, in its polling, whether it's done in a Crown corporation or whether it's done by government proper. The policy is clear, I think, that everyone follows, including the opposition in terms of its public policy polling. That information is available.

So I hope that we're going to get that information. And I also think it's fair to say that even on the questions that might be sensitive to the corporations, I think it's the results that are sensitive, and I would like if we could, Mr. Chairman, at the meeting next week for officials to undertake to explain why . . . to explain any reasons they might have at that time for not providing, at the very minimum, the questions that are being asked and paid for by taxpayers' dollars here in the province of Saskatchewan.

Does anybody have anything else on the questions?

Mr. Forbes: — I just want to be sure I go on record as being concerned about taxpayers' dollars. I don't want any impression that I am not concerned about that. And it's a very big deal for Saskatoon Idylwyld. That's a huge issue. And we've just gone through a three-year tax reform package which I think was a very, very good thing. But I am concerned about the clarity of language use. Language is very, very important and I think it's really critical that you say what you mean and mean what you say.

And so I'm concerned when we have an Act and it states right there in section 2(h), talks about public money. And I am concerned when there's comments made that everybody in the province is using this.

And I have a question for the officials from the auditor's department. Do you feel that you folks are the only people using the correct language, the proper language — public money? Are other people . . . everyone else is using taxpayers' dollars except for you folks?

Mr. Montgomery: — I think I'll just speak for us. We use the term public money when we make our comments but we don't use taxpayers, no. It sets out in our Act that it's public money, as you point out, and we tend to think public is broader than taxpayers.

Mr. Forbes: — Right. And I think that's very important because it speaks to the people who are here now but also into the future. And that does not at all diminish our commitment to taxpayers in this province, but it means that we have a commitment for the people who are here now and people into the future. And I think this is very, very critical.

So I think it's important, Mr. Chair, that the language is correct and we can be role models in this committee because this is how we manage the public money here. And I think it's up to us all to do the right thing and use the correct terminology. Thank you, Mr. Chair.

Ms. Atkinson: — Thank you. I'm not sure if you can answer this question but can you . . . Based on the information that all Crowns have gotten from their various polling results, which Crown would be the most popular Crown corporation in the province?

Mr. Wall: — Must be CIC.

Mr. Hart: — Well we'd like to think so but unfortunately we're not as well known as some of the ones who touch the customers more directly.

I think that information has already been made public, if I recall, perhaps in the House, and it may have been the minister who stated, I'm not sure, that — our minister rather, Minister Sonntag — that SaskTel consistently rates very highly. It trades one or two spot typically with one other very prominent private sector company in the province, which is part of the issue of sort of releasing the questions and the results.

Because what we do is we benchmark the popularity or customer support around things, as I said, like customer service, quality of service provided by staff, integrity and honesty of the

company — these kinds of benchmarks — against a variety of other well-known, private sector companies and co-operatives in the province. And to see the information and understand it in context, you need to see sort of how well or how poorly they're doing relative to that group. And I guess our reluctance would be sort of releasing information on those other companies who may not want to have their survey information out there in the public because some of them quite frankly don't look as good as I suppose as they would like to.

Ms. Atkinson: — So in terms of the province and the public's impression of various corporations, SaskTel is either the most popular or the second most popular large corporation in the province. Is that what you're saying?

Mr. Hart: — Yes, that would be fair to say. And the others are, I would describe them as in the middle of the pack — they're not at the low end but they're not at the high end.

Ms. Atkinson: — So even with the efforts that we've seen from certain quarters in the last year or two, when it comes . . . Certainly in terms of some of the controversy around SaskTel and the comments that have been made from certain quarters in the province, SaskTel remains either the top corporation or the second top corporation in the province. Is that correct?

Mr. Hart: — They have consistently rated there since the time we've started surveying, which is about three years ago if I'm right . . . Three years of data they've been number one or two.

Ms. Atkinson: — Well that's remarkable and that really does say something about the public's support for this particular Crown corporation. And you say when you rate, when there is a rating against other companies in the province, we focus on service. Do we? Is that what we tend to focus on?

Mr. Hart: — I'm going from memory here, but overall customer service levels is one dimension we test. Whether the company is seen to be honest is another dimension we test. There's a question related to the quality of employees, I think, or how knowledgeable employees are, I think is another area. I'm just kind of running through the back of my mind here to . . . But there are a number of . . . I mean we don't just take one question and say, you know, how do you rate customer service of company A versus company B. We do try to drill down into areas that are components of service — whether they see them as being honest and delivering what they say they're going to deliver or whether they've got knowledgeable employees, that sort of thing.

Ms. Atkinson: — So I'd just like to put this on the record. Yesterday we had the Leader of the Opposition indicating very clearly that the CEO (chief executive officer), who has been the CEO of SaskTel for a number of years, would be the first person fired should the Sask Party become the government — fired from a corporation that is either viewed by the public as the top corporation or the second top corporation in the province in terms of providing service, quality of service, quality of employees, and honesty and integrity. I find that remarkable, given what the opposition has said recently about Mr. Ching.

Mr. Huyghebaert: — Thank you, Mr. Chair. A question along

the same lines is, the results of the survey and the ratings of the corporations — could that or would that be directly related to the type of questions that are asked in the survey?

Mr. Hart: — Well we believe that we've hired professional people to design the questionnaires. They have experience in this kind of activity. Our sense would be that the questions are objectively phrased.

Mr. Huyghebaert: — And, Mr. Chair, was this an independent survey?

Mr. Hart: — Yes.

Mr. Wall: — Thank you, Mr. Chair. A question about some of the . . . There was also some comment yesterday in the media about some different perhaps structures or alternatives that CIC might be considering for what we'll call sort of non-core investments. And, you know, that can mean, I guess, anything.

We generally refer . . . When we talk about non-core assets, we're generally talking about CIC III (Crown Investments Corporation of Saskatchewan Industrial Interests Inc.) is what we're talking about for the most part. Others may consider, you know, for example a dot-com at SaskTel to be a non-core asset. But we don't. For the purposes of our policy discussions we have we separate it all, that SaskTel is complete including its international division. And we've called that a core Crown and then the non-core would be these sundry investments at the . . . that CIC III would have.

You know, there was some very . . . an interesting comment in the article and one that we in opposition I think find . . . have a good deal of interest in, in being a potential pragmatic alternative with respect to disposition of some of these non-core assets. And that was the concept of whether or not, sort of, some sort of v-cap (venture capital), some sort of venture capital fund could perhaps be helped to be established supported by the assets, supported by some of these assets. Or you know, this isn't the correct terminology, but maybe the kind of the mutualization of some of these assets in the province of Saskatchewan.

And I think, you know, I think the opposition thinks it's an interesting alternative and a pragmatic one that is being potentially explored. It would be privatization if it happened, if it in fact were mutualized, and people could purchase units.

In the year under review, has that been considered? Was there work done by any third parties and firms to take a look at the potential of that kind of alternative for some of these III assets?

Mr. Hart: — There's been some work done in the year under review. The bulk of the activity's been done in the current year. But I can respond . . . And the work is not complete yet, but you're right to say that there are some active considerations in terms of options going forward with regard to that portfolio.

And I think if you look at the historical context of the CIC III portfolio — which is what I am referring to here; not the various other investments that you referred to that would be in SaskTel's portfolio or SaskEnergy's or SGI's (Saskatchewan Government Insurance) or SaskPower's for example — we

have liquidated or divested a fair bit of that portfolio in the last 10 years. Roughly \$2.3 billion of cash has come in from the sale of things like Crown Life, the Bi-Provincial Upgrader, Cameco shares, you know the list. And we've reinvested about 1.1 billion back in reinvestments in those and some new investments, for a net cash positive of about \$1.2 billion which has been used as part of debt retirement or dividend payments or in various fashions.

The remaining portfolio is about \$575 million in book value — arguably higher market value than that — but the question is whether we go forward on the same basis or whether there is in fact an opportunity to create additional private venture capital activity in the province somehow by using this portfolio. That's the question I've put to, essentially, people at CIC and others, outside advisors, that we've retained.

And as you know, since 1999 when we've been more active in the investment business again — although we haven't put a lot of money out even relative to the previous period of time, but it's been more to the new investment area — we've made a conscious decision to start investing in private venture funds and having those funds managed by private managers, whether it's Crown Capital Partners, Prairie Financial Management — various groups like that — the Foragen with Royal Bank, or Primaxis with Royal Bank, and others.

And we see that trend as positive in the sense that it provides the buildup of private, venture capital management in the province. And until we . . . Unless and until we see more growth of the private venture capital, there will be continued pressure to come to CIC to do this.

Now to this point all we've been able to do is in fact seed the development of what I would call mid-sized funds. These are funds that are anywhere from 20 million to \$60 million. Typically in a fund like that you don't invest more than 10 per cent of the fund in any one project which means that the average size maximum you could do out of any particular fund is between 2 and \$6 million, I guess. And prudent management would indicate that you'd invest far less than 10 per cent in each and every fund.

That means that, for example, if a Broe company shows up or a Tolko Industries or whatever, there still is no other place to go for big capital investments other than CIC. And so the question in our mind is can we take CIC III and turn it into something that is more private sector oriented.

So far what we've heard is that selling off an interest in the entire \$575 million fund is not prudent; that the way we've been doing it in the past, which is to take selective opportunities to divest of certain assets — pick your asset, Meadow Lake Pulp, NewGrade, something like that — is the way to go. So you find a willing buyer/willing seller kind of arrangement rather than trying to do a deal on the entire portfolio because it's fairly eclectic as you know and a buyer may be interested in only one particular asset.

What we have found is that we think there's potential to build private sector management around that fund and attract other pension fund money potentially down the road. And so that's an option that we're actively working on and we'll be coming

forward to our board with at some point. And then it's kind of their call as to where we go, if it has merit or not.

Mr. Wall: — Well I think it's a very interesting discussion to have and that the work begun in the year under review is good, so we can chat a bit about it, because I think it's very, you know, it fits with exactly where our policy is, for example, that not only is the disposition of these assets to the extent that they might help with either the Crown debt or the GRF debt through dividends something that is worth considering and is worth pursuing, but also that if there's some attendant, you know, development or economic growth that could be achieved or the development of a venture, of a private sector venture capital industry of some significance in our province, if that's a possibility, as well, as a result, is sort of a spinoff of the disposition through some innovative ways maybe. That's at least something that should be looked at very, very carefully.

And so to that end, in the year under review, are any of the payees we looked at, did they help with the work? Was there a report done or has this been . . . You mentioned, Mr. Hart, that this had been a request you made of staff to have a look at this anyway. So that's just been internal at this point or have you outsourced some help to see the potential of this?

Mr. Hart: — I think we had one project outsourced last year, if I recall, which is the National Bank Financial Inc. item for, looks like 21,000 here, if I've got it right, 21,157.

We have done work in previous years too. We engaged a fellow named Bill Shupe a couple of years ago — I think we've referenced that in the previous conversations at the Crown Corporations Committee — to look at whether or not there was an opportunity for us to exit or withdraw from the market and be less active than we are.

And the conclusion that has been reached by not only Mr. Shupe but various other people that we've consulted on this, is that while there may come a time in the future where government funds, whether they're managed by CIC or by some third party, could be withdrawn, there is still quite a large gap of venture capital in the market, now particularly in the larger deal size.

I think we've made good progress in getting the medium-sized deal size covered with Prairie Financial Management, Crown Capital Partners, other kinds of activities that we have underway with them and in some particular areas like biotech with the Foragen Fund.

But on the large industrial type project, there still is no other private sector player based in Saskatchewan who has kind of deep connections here and deeper pockets, if I can describe it that way, to partner up with a Tolko Industries or around ethanol. And so there's still a need to, unfortunately, do those direct investments out of CIC because there's no alternative.

But we are always working towards a scenario where that wouldn't be required in the future, but we see that some time away yet, based on the advice we've been given. But it's under active consideration and active work nevertheless.

Mr. Wall: — I'd like to change issues soon.

Ms. Atkinson: — Have officials at CIC taken a look at Quebec and how the Quebec government was able to in essence, through creating a fund, start to develop a class of business people that were located in Quebec?

And I believe that just recently the new Liberal government may have just blown it up, but it was something that had been there since the mid-1970s. Are you familiar with this?

Mr. Hart: — Yes. Well there are two large organizations in Quebec who have been mandated to invest in Quebec or to go and seek out investors from outside of Quebec, who would invest in Quebec and invest shoulder to shoulder with them.

One of course is the Caisse de dépôt, which is largely pension funds. The other is a company called — which is a government-owned company called SGF Soquia, or Soquia. Pardon me. It's just one of their subs. And it managed I think, or does manage about \$12 billion of capital that is largely capital provided by the Government of Quebec for the purpose of doing the kinds of things CIC III does.

One of the things we found in our review is that all governments are involved . . .

Ms. Atkinson: — That was my next question.

Mr. Hart: — . . . in this activity. They have different ways of doing it, whether they do it directly with their own management or whether they outsource it to be managed by others. But BC (British Columbia) has a fund, for example, that is privately managed. Alberta of course has invested in that . . . some of that same fund. In addition Alberta has the Treasury Branches which are a government-owned bank, essentially. And Quebec has its vehicles.

And so you look across the country, there are various ways. But at the end of the day there's . . . you look behind the stuff and there's often a fair bit of what you would refer to as public money behind these various funds, or they've been funds created by . . . I don't want to use the term edict, but strong persuasion where the government has strongly indicated that pension funds such as teachers or government worker pension funds would be put under, some portion would be put under management privately by a venture capital firm. Growth Works, for example, in BC, manages a fairly large pool of BC public employees' pension funds that are . . . and Crocus in Manitoba the same kind of thing.

So various ways of doing it but at the end of the day a fair bit of . . . I can use the term generally public money going into these kind of investments, albeit under various different schemes for managing the money.

Ms. Atkinson: — So then when we take a look across the country then, it's clear that all governments, regardless of ideology, have some sort of public involvement in trying to kick-start certain industries, investments in certain industries that they're trying to attract to their province; that this notion of a CIC with its private . . . or with its investments in certain private companies, this isn't unusual. It's not something that's peculiar to an NDP government in Saskatchewan but this peculiarity could be found in Conservative Alberta,

Conservative British Columbia, Conservative Ontario, Liberal Quebec, and so on and so forth. Am I correct?

Mr. Hart: — Not the particular CIC model per se. That I think is fairly unique in Saskatchewan. But the general concept of public funds being managed by a government agency, a quasi-government agency, would be pretty common.

The one exception perhaps would be Ontario where there hasn't been for some time at least such a vehicle. But there's a large and rich venture capital infrastructure there already so that hence the need for it . . . although you could argue that Ontario has not done as well in some areas as other jurisdictions have done recently.

Ms. Atkinson: — But if I recall, Ontario has made certain ventures into the auto industry, for instance. So they have used public funds to support certain plants located in certain parts of their province that . . .

Mr. Hart: — Yes. My comments are specifically on the notion of private equity and putting money into what's termed to be private equity as opposed to general business incentives that might be a one-off case to support a steel plant that's in difficulty or to provide funds to attract an auto plant or something like that, which has not been for some time much of a practice at all in Saskatchewan. The Saskatchewan approach has been to try to invest shoulder to shoulder with the private sector, take the same risk, same reward kind of approach.

That is a little unique in the country although Quebec has certainly done plenty of that, and arguably BC, Alberta, Manitoba, other provinces have also done it. They've just chosen to run the fund in a different way than we have. But it's the same kind of principle of money going in shoulder to shoulder.

Ms. Atkinson: — So just to . . . Can you give us a little, a little . . . your view on the Alberta Treasury Branch and what they do, which is basically a government . . . or a government agency.

Mr. Hart: — It's a Crown corporation owned by the Alberta government. It provides general business and residential personal financing for mortgages, car loans, farm loans, small-business loans — as I understand it, a range of things like that. It's been around for some number of years in Alberta, exists today, and is still quite active, particularly in rural Alberta I believe.

Ms. Atkinson: — Okay. Thank you.

The Chair: — So unless you indicate that any of your officials need a break at this point, I think that we might want to proceed and . . .

A Member: — Sounds like a good plan.

The Chair: — Is that agreed? Then let's carry on.

Ms. Atkinson: — Mr. Chair, just . . . You know I really do think that when we ask questions we need to be, if we can, be respectful of each other and I think each member is entitled to

ask questions that they think are important to have put on the public record . . . (inaudible interjection) . . . I've never been known for giggling.

The Chair: — We're dealing with a question still of assets. Is it on this topic, Mr. Brkich? New topic? Okay then, Mr. Brkich.

Mr. Brkich: — Thank you, Mr. Chairman. Last week when we were in we discussed a written agreement with the RM (rural municipality) of Canaan there, dealing with tax notices there, with taxpayers of that RM there. You had said you would be in contact with them to see if the council would release the written agreement. Had you been in counsel with them?

Mr. Douglas: — Mr. Chair, I have been in touch with the RM and they have agreed that it's okay to release this memorandum of understanding and I could table it with the committee, have it circulated to the members, or whatever. Do you want me to do that now?

Mr. Brkich: — Thank you. Have you been in any more negotiations with the taxpayers of the RM of Canaan?

Mr. Douglas: — No, there's been no further meetings since the last time we spoke about this.

Mr. Wall: — Thank you, Mr. Chairman. On the issue of the SOCO (Saskatchewan Opportunities Corporation), the former SOCO file. When they were filing separate annual reports my recollection is that they provided a fairly significant or specific breakdown of the status of their portfolio, the status of individual loans. And I'm wondering . . . And now of course many of those loans still exist after the transfer, I assume. Indeed is SOCO . . . I understand SOCO may still be lending, itself, perhaps? No, it's not lending, it's not involved in the forestry centre, for example, in P.A.(Prince Albert)?

I'll just start with those brief questions and then . . . I'm just trying to find out if we can get the same level of accounting that we used to get in the SOCO annual reports now that it's been . . . now that it's part of, sort of, CIC proper. You know, in terms of what they were booked at when they moved over to CIC; what the current status of the loans are; what the, you know, what the value is now; if the book value now is different from when they came over in . . . was it October 9 of . . . whenever that . . . I don't have the date in front of me, but in October of not too long ago.

So I'll just maybe ask officials to update us on that.

Mr. Douglas: — Mr. Chair, sure, I'd be happy to answer those questions. I guess the short answer is yes, the same level of disclosure will be available. There was — not only in the annual report at SOCO, but also in a regular newsletter that was sent out to interested parties and stakeholders — a full listing of all the investments. We are in the process of integrating that portfolio into the CIC III portfolio and expect to be able to do a similar kind of report in the not-too-distant future about all the investments, the SOCO investments within the III portfolio along with the III investments.

And I would note as well that the annual report of CIC III non-consolidated, one of the three sets of statements in the

annual report, provides a fair level of disclosure on those matters as well — the transfer in and so on.

Mr. Wall: — Okay. Have I missed . . .

Mr. Douglas: — Not a full list in the same way it was done in the SOCO annual report but we're working to do the same thing now that they're integrated into the III portfolio.

Mr. Wall: — Could members of the committee . . . Sorry.

Mr. Douglas: — Sorry. Just on the point of SOCO's continuing role, they no longer have any role with respect to direct investing in business. They still, as far as I know, continue to have an infrastructure investment function related to the research parks and research forestry centre kinds of projects. So as I understand it, they still have that capacity but not in the investment, direct investment and individual businesses. That role has been taken over by CIC III and the investments division of CIC.

Mr. Hart: — Mr. Chairman, if I could just interrupt, may I ask John Amundson, the controller, to direct you to the pages in the CIC annual report where the information is found.

Mr. Amundson: — Yes. Assets of SOCO, the loan portfolios, are actually included in the CIC Industrial Interests Inc.'s financial statements. If you go to page 93, they're listed under (d), other loans. And if you read the notes to (d), it explains the amounts and how they were transferred in.

There are also . . . Some assets are included on page 100 under costs, basic investments — Performance Plants being the largest of the amounts that were transferred in from SOCO.

The materiality of III would kind of lead you not to disclose a lot of these things because a lot of them are \$100,000, \$200,000 investments. You're looking at, you know, \$575 million worth of investments — materiality from an accounting point would lead you not to list those out separately or I mean these financial statements would be about 400 pages.

Mr. Wall: — Well I appreciate that, Mr. Chairman, and we did note these references that the officials were pointing out now. And in fact those notes highlight the fact that they were transferred over to the corporation in October 9 of last year at book value.

And I think that's a fair comment. I also appreciate what you're saying about materiality in terms of the scope of what's been transferred over and the size of CIC.

However, however I think that what used to happen in the province of Saskatchewan, is my understanding, is that each of these loans were . . . there was a bit of a report to members of this committee if they were reviewing it or for the members of the legislature, if the people, if they wanted to see it, the people of the province, to see the nature of the portfolio.

And so I wonder if officials would undertake to be able to provide that update if we could. And not only what the . . . I think we're specifically interested in the level at which those assets were booked into the CIC III's annual reports. Now

there's no question there but if you want to comment, by all means.

Mr. Douglas: — Well perhaps I could take this opportunity to just provide a brief summary of the track record of the SOCO investments, not one by one but as a whole. And perhaps John can speak about the specific value of the transfer of those investments into the portfolio.

But I'll just give you a sense of SOCO track record, 1994 to 2002. Total investments were 101; currently still active are 51. Nine of them are, nine are characterized as special investments. Those would be investments that are struggling, that we work with. I'm not quite sure where we're going to end up with on those. Thirty-three paid back in full; eight where there was write-offs; permanent jobs created or sustained through those investments was 2,133. And as of the end of 2002, write-offs as a percentage of total investments was about 2 per cent.

But I should be quite straightforward with the committee and point out that by the time the portfolio is fully wound down, we expect that those write-offs will increase somewhat, not dramatically but somewhat, to a level, it's very, very difficult to say, but my judgment on this would be perhaps 5 per cent. And again benchmarking that kind of performance against venture capital portfolios — similar venture capital portfolios — it would compare quite favourably.

And then, John, are you . . . have figures handy about the actual book value of the . . . the total book value of the assets transferred in?

Mr. Amundson: — The total book value transferred in was 19.6 million.

Mr. Hart: — We can table the detail of the investments if you'd like.

Mr. Wall: — Sure. That would be great if you can. Yes, appreciate that. Thank you.

So overall SOCO and the research parks, to the extent that those . . . what sort of subsidy, if any, are we looking at? What sort of any ongoing GRF contributions are necessary for SOCO to help SOCO's involvement in the research parks if any?

Mr. Douglas: — That's a question that I'm unfortunately not in a position to answer any more. I don't have that information at my fingertips.

Mr. Wall: — Could we get that information if there's any . . . does somebody, anyone else have that as to whether or not there's any.

Mr. Douglas: — We'd be happy to get it for you and make sure that it was provided.

Mr. Wall: — But what you're saying is that SOCO's activity would be limited to the management . . . or sort of being the landlord I guess for the research parks that would be here on campus and at Innovation Place and then somewhere down the road the P.A. forestry centre.

Mr. Douglas: — That's correct. And infrastructure development role and management.

Mr. Hart: — Just to be clear, what we've done, Mr. Chairman, is we — as a result of the cabinet direction around the budget — consolidated the investment activity from SOCO, which was one part of the old SOCO organization, into CIC III, laid off some staff, moved those investments and some of the managers from those investments from SOCO into the CIC III organization.

And the remainder of SOCO was, as Mr. Douglas has indicated, manager of the Regina Research Park, Innovation Place, and the, I guess, soon to be built forestry centre in Prince Albert. And it continues on with a smaller staff essentially managing that particular, those particular items of real estate and infrastructure related to them but doesn't have any longer any investment activity beyond what's required for those particular enterprises, that is the research parks.

Mr. Wall: — I don't have any more SOCO questions. If anyone else does have SOCO . . . No.

On the Western Life Sciences Venture Fund Ltd. Partnership there's a reference to it on page 100 of the year under review annual report. Does that venture fund now have any . . . What's the current, what's the current level of investment that CIC has in this particular fund? And have they made any investments in the province of Saskatchewan?

Mr. Douglas: — I'll need a minute just to check those numbers if you'd like to perhaps ask another question.

Mr. Wall: — Okay. We can move on to another question then while you're looking for that? Is that helpful?

Mr. Douglas: — Please.

Mr. Wall: — Okay. How about we'd like to talk a little bit about Minds Eye entertainment. And this was discussed . . . I think it's been discussed in the legislature and I think at the Crown Investments Corporation press conference to table annual reports it was discussed. The media asked some questions about it.

It's quite a stark drop in terms of the value that this thing's booked at on behalf of CIC, from \$4.5 million to half a million dollars. And I guess a general indication that, from some sources, from some places that there might be more money being invested into this venture per that agreement that they have in terms of the matching dollar for dollar — what's the status of that?

And, in light of the fact that this appears to . . . the investment on the part of CIC seems to be in jeopardy to say the least, are you reviewing your commitment to match dollar for dollar on this thing down the road, which could take us up to, I think, you know, it could take us up to, in short order, well in excess of double this current . . . of the current investment?

Mr. Douglas: — Sure, I'm happy to speak to that topic. The authority that's in place in addition to the 4.5 million original investment is for up to \$2 million of additional capital and the

current amount advanced against that is about 1.15 if I'm not mistaken. And you're right, the condition around that as per the authority in place is for matching funds. So since that approval was given, we've put in 1.15 and other investors have done . . . have put in a similar amount.

I think it's . . . We've spoken to this topic before. Minds Eye has had a difficult period of time recently, not unlike many companies in the film and video production industry. There's been an industry downturn in terms of the level of production, not just in Saskatchewan but across the country and worldwide as a matter of fact, and they are affected by that. Given that, we felt at the end of last year that it would be prudent to take a provision against our \$4.5 million investment.

A provision does not mean that we don't think that we have any likelihood of recovering that amount. It's just the prudent thing to do to value an investment cautiously on your statements. But we work very closely with the company right now, including having a representative on their board to work through this current situation. And we will continue to do that. So we review the status of that investment and our role in it daily right now.

Mr. Wall: — So you'd make . . . That's a pretty significant decision to make a writedown of that significance and reflect it in the annual report. And so what precipitated that I guess? Was it their, you know, actual financial performance or some combination of actual financial performance and dim prospects, or what was the . . . You know, in the case of SaskTel's Austar investment, we had this discussion as well when CIC was here . . . officials were here last year and when Tel officials were here last year, and you know we would argue that they were in no hurry to write down the Austar investment. Now that's happened. It's happened now but at that time it was still on the books at \$40 million.

So now for CIC to have done this, clearly something fairly serious obviously precipitated it. And I wonder if you can highlight in general terms what that is or what that was in this case?

Mr. Douglas: — Mr. Chair, actually it's all of the above. It's a combination of our assessment of the current status of the business and the industry and its prospects and past performance. And when you look at all those factors, you make a judgment as to what you think the appropriate thing to do is in terms of taking a provision against an investment.

Mr. Wall: — I guess that some of those factors would have been existing, would have been existing conditions when the government made its recent . . . when CIC officials decided, made its most recent commitment to invest still more money into this company. And so given that . . . And maybe that's wrong and if it is I'd like to hear that. But is it fair to say that at least the beginnings of, or some of those, or a lot of those concerns that you've just highlighted that have caused the writedown were existing conditions when a decision was made to invest still more CIC resources into the company?

Mr. Douglas: — Definitely some of those conditions would have been present.

Mr. Wall: — And so was it . . . you know, I'm trying to then

try to decide as a voter or as a taxpayer, as a public resident of the province of Saskatchewan — whatever it is that we are now — but, you know, was the decision made anyway even though there was some of these conditions going on, the decisions made anyway to hopefully protect the original investment that CIC had into this thing already?

I'm trying to get my head around now, then why? Maybe it wasn't the desire of CIC officials to do this most recent deal at all, maybe there was some other outside forces — I don't know. I'm just trying to get a handle on why, in light of the concerns, would they make this additional commitment?

Mr. Douglas: — As an investor when you find yourself in a situation like this, you have a judgment to make, which is a judgment around a recommendation to make to the decision makers, which is whether or not you think that applying additional capital to the business will both protect your existing investment and has a reasonable or probable prospect of being returned at the end of the day, so that the additional capital will allow the business to come through its difficult period and the net result will be positive for both the business and for CIC as an investor.

In each and every case that's a judgment call that we as officials are called upon to make around our investments.

Mr. Hart: — Maybe if I can add, Mr. Chairman, we've been down this road several times in the past 10 years. There have been instances where we have decided to exit, having put money in.

A case in point would be Western Canadian Beef Packers in Moose Jaw. We did lose money there for a while and decided that we really didn't have the management . . . access to the right management to turn that company around. We found a buyer that was willing to take it off our hands and carry on the operation in the province, and decided to exit the investment and did so at a loss.

We also have had situations like Great Western Breweries where we've gone through this and put more money in and we've been able to turn it around. So these are always tough calls at this point in time but once you're in, you've got to decide whether now is the time to cut and run or now is the time to ride out with the management, based on the plan you see in front of you.

And those are never easy decisions but once you're in, you unfortunately have to make the decision. And sometimes you win and sometimes you lose.

Mr. Wall: — And so now the corporation has somebody on the board, is that what you said, Mr. Douglas, or . . .

Mr. Douglas: — Yes, that's correct, actually all along we have had.

Mr. Wall: — You've always had, okay. So there's someone on the board and then there's . . . and so there's also somebody also involved in a more direct way. And I know in another written question we asked as to the Banff Television and Film Festival coming up this month, CIC . . . the investment

manager, perhaps the same person that's been assigned to the board, I don't know, but an investment manager at CIC is going to be attending that festival. And so is that also part of just trying to be knowledgeable and know as much as possible about the film industry now that the corporation has vested in that?

Mr. Douglas: — It is the same individual interestingly enough, and you've answered the question. Yes, that would be the reason. We routinely have our investment professionals attend industry conferences to make sure they're current with what's going on in the industry, and have a network of individuals in industry and also business development activity where they may run into opportunities for attracting new production activities to the province.

Mr. Wall: — But would that be something Sask Film would normally do?

Mr. Douglas: — They work hand in hand actually. Sask Film is more of the inward investment promotion kind of activity, I think would be a fair way of describing their role. Our people are a potential source of investment capital which Sask Film is not.

Ms. Atkinson: — . . . of questions on this matter. Mr. Hart, you indicated that it's not unusual to put further investment into certain companies when that company isn't going well. And you take a risk — either you protect your investment or you let it go down. And you gave the example of Great Western Breweries, and you did not give the example of Husky Oil. I mean, we could have lost our investment there.

Could you sort of give us a little reminder of what our investment did? When Alberta and the federal government were taking a bath on their investment, we decided to get in even more. And what did that result . . . what did that net us or result in?

Mr. Hart: — We ended up with about 100 cents on the dollar, I think. Did we not, John? Alberta, I think, and Canada divested at, I thought it was around 7 cents on the dollar. But I was corrected by Steve West, a former member of the legislature in Alberta at a recent meeting in Lloydminster, who said that they actually didn't gain anything from their exit. But I had understood it was about 7 cents on the dollar. We actually had to put additional 30-some million dollars . . .

Mr. Amundson: — About 40 million.

Mr. Hart: — Forty million in, at that time. It wasn't . . . It predates my time at CIC. But essentially the decision there was to follow Husky and it turned out to be a good decision relative to the alternative. But of course, you know, one never knows at the time. Right?

Ms. Atkinson: — Right. Well as a member of cabinet at the time, I do remember that discussion. I remember Mr. Ching was the CEO at CIC who gave us that good piece of advice, that we should put some additional money in, in order to recapture our investment.

This is not unusual in the business world. I've had my own experience with my own, being a partner in a business where

there are times when you have to put in additional money in order to get through some tough times, but that . . . in order not to lose your original investment. Would you agree with that?

Mr. Hart: — Oh clearly. In the venture capital business — and, you know, one can argue whether government should be in the business or not, or if so, how — but if you're in the business, it doesn't matter whether you're government or private, there's a 2-6-2 rule that's generally used which is, for every 10 investments you make, two are going to take an inordinate amount of your time trying to manage them and are going to lose money at the end of the day; six are going to sort of limp along, not generating the return you'd like but you'll get a positive return out of them, probably not adequate for the risk you've taken in the project; and two are going to be absolutely home runs which, you know, at the end of the day, when you add it all up, gives you whatever return you get on a blended basis.

And that pattern seems to exist whether we do the investments or Crocus Fund does them or Banyan Capital does them or any number of venture investors in the US (United States) do them. It's pretty much a rule of thumb in the industry.

Ms. Atkinson: — So now that we've sort of elevated this discussion to the larger picture, I'm wondering if you can tell us how many people are involved in the film and video industry as workers in this province; and what does the film and video industry do in terms of GDP (gross domestic product) in this province?

Mr. Douglas: — I certainly don't have that at my fingertips. We might have a little bit of background we can get for you here but I'm sorry, I just don't have that number. It is a very substantial number.

Ms. Atkinson: — And has that number grown substantially or significantly in the last 10 years? And which company is considered to have added tremendously to the growth? And the numbers that . . . and I'm thinking young people, young people who are working in this province in the film and video industry — either as actors, either as producers, either as set designers, as graphic artists — I mean, it is absolutely phenomenal.

As I recall, I think SIAST (Saskatchewan Institute of Applied Science and Technology) has put in an additional course. There's been training that's been put in in order to support the film and video industry because of the growth. And would this have contributed at all to your decision to add a further \$1.5 million to this particular company in order to support, I suppose, those young people basically who are working in this business in the province?

Mr. Douglas: — It certainly is a factor. We look at the business case of the additional investment first and foremost but then as an agency that has a public policy mandate to support economic growth and activity, we do factor those kind of considerations into it.

Ms. Atkinson: — If you could get those numbers, it might be helpful for those people who, those people in certain quarters that have been quite critical of this industry.

Mr. Douglas: — I could say that to the best of my recollection, the total value of production in the province peaked at between 80 and \$90 million two years ago. And there was a, as I said, a downturn last year. And again if my memory serves me correctly, I think the number was just a little less than \$50 million — I stand to be corrected on those. That gives you some sense of what the industry has gone through over the last year.

To your question about the role that Minds Eye has played in that growth of the industry over the last 10 years, I think most informed observers would say that they were key to that. They were a major player in the growth of the industry in the last 10 years.

Ms. Atkinson: — Thank you.

Mr. Hart: — I think if I can just add, it's also fair to say that over the last 10 years Saskatchewan has looked at trying to develop this industry. There was a time when SaskFILM had essentially funds available to invest in film productions, and did that for a while, then other provinces instituted tax relief for private investors to come into the film industry.

We were at a disadvantage because we didn't have a tax incentive. The funds were then used . . . that were formerly available to invest were shifted over to pay for a tax credit for investing in film, and the other competing provinces then raised the bar one level and had not only a tax incentive but they had funds as well, particularly Manitoba. And so our film producers were finding that they were at a disadvantage in terms of putting productions in Saskatchewan because they could get not only the tax credit in Manitoba or other places, but additional funds.

And so we were then left with the question of would we invest in the film industry? SOCO had been putting money into project-specific films. That is a higher-risk way than investing in a company, so we determined that we would put some investment into a particular company that was in fact bringing the lion's share of the productions into the province and contracting the various other film companies and film producers.

And so that was the rationale for the decision, from a public policy point of view, over and above the business case. But it goes back to the earlier discussion about the competition you're into from other jurisdictions when trying to attract investment. If others are upping the ante then you've kind of got to sort of stay in the playing field just to be keeping the playing field level, and use your natural advantages, which Saskatchewan has started to build now because of the sound stage, because of the cost of doing productions here, generally which is lower than many other jurisdictions.

But even having those things you then have to go and promote Saskatchewan as a location to shoot, and you have to have the crews and the infrastructure here to be able to deliver, if you can land a production. And so, you know, companies like Minds Eye have been key to that because they have lots of contacts around the world and they're fairly well respected in terms of their ability to deliver on projects.

And of course they have tried to move into the whole area of

producing series, which of course produces more steady employment for the industry as opposed to the big production that comes in, everybody works on it, you import a lot of labour, and then it disappears after. Whereas if you can do a TV series there tends to be more like regular work, and a lot of factors like that going on. And the downturn in the industry has sort of impacted them and other producers in the province.

The Chair: — We still have a question on Western Life Sciences, or do you want to let Mr. Huyghebaert go first, Mr. Wall? Or is it on this issue?

Mr. Huyghebaert: — It's on this issue.

The Chair: — Okay, that's fine. Go ahead.

Mr. Huyghebaert: — I hope it's fair to ask officials this question, but we're talking about Minds Eye and how much it's done for the province. Could officials tell us what percentage of Minds Eye production work is done in the province vis-à-vis outside the province of Saskatchewan?

Mr. Hart: — I have to get that information for you. I'm not sure if we have it. We'll try to get that information for you.

Mr. Douglas: — I would say this, that it's the bulk of their production. It's historically been the bulk of their production. They do have offices in Manitoba as well and some of their production is done through there.

I could now return to the question about Western Canada Life Sciences — if you like — Venture Fund. Our invested and committed in that fund, as of 2001, was \$10 million; private sector funds levered, \$35 million; for a total of \$45 million. Advanced by CIC at December 31, '02 is \$2.7 million. So there's a commitment there but there's only been 2.7 advanced against it.

The number of Saskatchewan investments made, which I believe was one of the questions if I'm not mistaken, as at the end of last year was zero. But subsequent to year-end they have done one in Saskatchewan.

Mr. Wall: — And how many would they have in total? How many investments would that fund have in total?

Mr. Douglas: — That's another question I'm not sure I have right at hand.

Mr. Wall: — And the other funds that were . . . that CIC's into, could we get that breakdown as well as to how many investments they made in the province versus outside the province?

Mr. Douglas: — Sure, we'd be happy to provide that to you.

Mr. Wall: — Thank you.

Mr. Douglas: — I would add that in each case there are, as a condition of our investment, requirements to invest a proportion of those funds back in the province if they are funds that aren't Saskatchewan specific and consequences if they don't do that over time.

Mr. Wall: — What would that percentage be?

Mr. Douglas: — At a minimum, I think it's 75 per cent of the Saskatchewan capital committed to the funds.

Mr. Wall: — So 75 per cent of what CIC commits to it must come back under penalty of something or other, to the province in investments, 75 per cent.

Mr. Douglas: — Yes.

Mr. Wall: — The Premium Brands is a question . . . I have some questions on the Premium Brands investment.

You know, I'd point out that, you know . . . I know it will surprise Ms. Atkinson perhaps but we have said on a number of occasions, and back to Minds Eye, that the government's on the right track with its film tax credit policy and that we think that it has served the province very well. And we're interested as well in those numbers you're going to bring back as to the growth of that industry since the . . . since and before the film tax credit was brought in.

On the Premium Brands issue, there's a whole writedown question there. I mean you've highlighted fairly clearly for members of the committee, Mr. Douglas, I think the thought process that went into writing down in that Minds Eye investment from 4.5 to half a million dollars in the year under review. And the Premium Brands investment is one that I have a question about.

I don't have today's price in terms of the shares but there's been no . . . It's still valued, the investment is still valued at the investment cost basis at \$15 million. It has been trading, you know, significantly lower I think than the value that developed this \$15 million figure sometime ago. When will the, when will CIC or the audit, your auditors recommend or your accounting folks recommend that there be a writedown if it's needed in fact, of the value of that investment?

Mr. Douglas: — That would only occur if and when there was a view established that there was a permanent impairment to the value. And certainly we don't think that to be the case here.

Mr. Wall: — And I think we were talking about timelines with respect to that Austar investment. Does time factor into that? Maybe the auditor, Provincial Auditor's office, can wade in. Does time . . . Does simply the time at which a stock might have been underperforming based on what it's booked at, is that viewed as a permanent impairment? Or what, what happens, how much time passes to constitute that sort of a decision or recommendation on the part of auditors?

Mr. Montgomery: — I think Mr. Douglas correctly pointed out, it's really a judgment as to whether or not that investment is actually a permanent decline or whether it's something that might come back.

Now I guess if there was a . . . You know the longer the time that the share price was depressed, that would provide evidence of permanent decline. If there was . . . If it wasn't coming back, yes, I guess you'd be looking down to write it down. Unless there was other reasons or other plans of the corporation to turn

that around.

Mr. Wall: — Thank you. I'm going to move on to another one if somebody else wants to . . . Mr. Douglas. Sorry.

Mr. Douglas: — The value of the Premium Brands investment, I could add that the shares are traded in the range of 7 to \$14 over the last year. And that gives you some sense that there is fluctuation in the public, capital markets and the value of these shares, but that from our point of view there's certainly no permanent impairment.

Mr. Wall: — The current status of that investment? I'm not even . . . I haven't checked with what the share price . . .

Mr. Douglas: — I haven't for the last week either, I'm sorry. It has tended to trade I believe somewhat . . . (inaudible interjection) . . . Yes, 9 to 11 I think has been the narrow range of late.

Mr. Wall: — And the original . . . and the purchase price was?

Mr. Douglas: — Twelve fifty . . . (inaudible interjection) . . . \$12.

Mr. Wall: — Right. FarmGro Organics. We've been talking a little bit about this in here lately again and the losses reflected in 2002. The business plan that went into this, did that business plan come from . . . Was it done by KPMG?

Mr. Hart: — Yes it was.

Mr. Wall: — And I think we've had this discussion before to some extent but is it my understanding that, Mr. Hart, when you were at KPMG you were involved, directly involved in the preparation of the business plan for a organic flour mill, organic mill in the province of Saskatchewan?

Mr. Hart: — I was one of a number of people at KPMG that was involved in it, yes.

Mr. Wall: — Would you characterize yourself as the lead person on that business plan?

Mr. Hart: — The business plan was in fact written by another individual at KPMG but I had a role in the development of it, clearly.

Mr. Wall: — And that is the same business plan then that was eventually used to . . . Or was that the same business plan then that formed the basis of the decision by CIC to invest in this, in FarmGro Organics?

Mr. Hart: — It was used as one of the inputs. If I recall — I obviously wasn't at CIC at the time — CIC did its own independent due diligence on that and hired, I think, an outside party to conduct due diligence on the assumptions in the business plan and made the investment based on the recommendation of that third party. But it was before my time there so I can't be precise in terms of what was done internally.

Mr. Wall: — What were the summary of the subsequent investments then though that were made into this because,

clearly, there was the original investment made by CIC and then subsequent to that — I think it was in last year's annual report — there was a reflection of some additional amount invested by CIC, and maybe even the year prior, but maybe not.

I'd just defer to officials to inform members of the committee, in addition to the original investment how many more times, if any, and how much money was CIC then putting into this company in terms of equity?

Mr. Hart: — I think Mr. Douglas will have that information.

Mr. Wall: — Thank you.

Mr. Douglas: — I have a summary but I can't give you precise bits. But I can give you a breakdown of the categories of investment and the total amount invested and the provisions that we've taken or write-offs that we've taken against it, if you'd like.

Mr. Wall: — Please.

Mr. Douglas: — The total invested capital would have been \$6.55 million; 1.7 million of that would be equity, 3.14 million of that would be loan, and 1.66 million in the form of a guarantee of a working capital loan to the RBC (Royal Bank of Canada) which we subsequently paid out.

We have now, as you know, recently finalized the receivership process and the sale of the assets. And our write-off in relation to that investment will be \$4.31 million plus or minus some adjustments for grain that's still in storage — it's being sold — and the usual things that have to be attended to in completing a sale, leaving us with a recovery of 2.24 million on the investment, for approximately, I guess that would be about 30 cents on the dollar recovery on our original investment of 6.55.

Mr. Wall: — But what was the original investment, Mr. Douglas?

Mr. Douglas: — The equity and the loan I think . . . (inaudible) . . . Yes, that would be \$4.89 million. The follow-on, if I can put it that way, would be in the form of a guarantee of the working capital with RBC, and that would be \$1.66 million.

I should qualify that by saying though that I think that the 4.89 million of equity and debt may have gone in, in tranches. It may not have all gone in right at the very start. I don't know that for a fact, but the more recent investment that was made, or commitment that was made, was a loan guarantee on the working capital loan for 1.66 million.

Mr. Wall: — Thank you. What steps did the company take to ensure that, or did they take any steps at all, to see in the bankruptcy process that farmers who had hauled in to the plant would receive as favourable a consideration as possible in all of this, since arguably given the farm economy, they may have been least able to, out of all of the groups, sustain a huge, a complete loss?

Mr. Douglas: — As I understand it, all the people that delivered grain but one received full payment for their grain under the provisions of the Grain Commission and Canadian

Wheat Board. And fortunately the individual that didn't, held on to a cheque and didn't cash it within the prescribed time and unfortunately took himself out of the coverage under that.

Mr. Wall: — Is there any discretion at all? Does the receiver have any discretion at all in a case like that?

Mr. Douglas: — Unfortunately not.

Mr. Wall: — It's prescribed by function with the court.

Mr. Douglas: — Yes, it would be considered preferential treatment of an unsecured creditor and they're not able to do that.

Mr. Wall: — Thank you very much. I have no . . . I'm going to move on here to another.

Ms. Atkinson: — Were there private investors in FarmGro?

Mr. Douglas: — Yes, there was a number of them. And to Mr. Hart's earlier point, when we invest, we do so shoulder to shoulder with private sector capital. And I think it's a matter of public record because there was a prospectus and an offering process around this one that a number of fairly prominent Regina and Saskatchewan business people invested alongside us, and they too lost their equity investment. There would be Bill Elliott, Keith Brown, and some others that I think are names that most of us would recognize.

Ms. Atkinson: — So there were a number of private investors, as I understand it, who wanted to start an organic flour mill. Is it not unlike what happens in lots of areas, where they try to raise capital, found it difficult, and then came to CIC with the idea of becoming an equity investor?

Mr. Douglas: — That's true. That's exactly the process that was followed in this case. It's very typical of when we get involved in a new investment . . .

Ms. Atkinson: — So it's not unlike . . .

Mr. Douglas: — . . . somebody comes to us with a business plan and some capital and we take a . . .

Ms. Atkinson: — So it's not unlike where we have individuals in communities — Shaunavon, Tisdale, or Melville — that are promoting the ethanol industry. They're trying to raise private capital, they get to a certain point, and then what they do is they can't find any venture capital funds, can't find any private capital, and then they come to CIC. Is that what does happen?

Mr. Douglas: — There's a very strong parallel.

Ms. Atkinson: — Very strong parallel. Okay. So in this case CIC had someone look at the . . . develop a business plan, internally? I mean not a business plan, but looked at the economics of this. There was KPMG looked at the economics of this, and based on all of the information that we had, made the decision to become an equity investor in order to support, I gather, the organic farmers and these private entrepreneurs that wanted to have a private organic flour mill?

Mr. Douglas: — Just a couple of qualifiers around that. My understanding of this is that KPMG was engaged by the proponents to do a business plan, which in turn was submitted to CIC and assessed. And through our usual processes — again, I wasn't there at the time, but — of review and analysis and confirmation of assumptions, and the full due diligence process we used, a decision was made to recommend it, an investment, alongside those private sector investors.

Ms. Atkinson: — And the private proponents of this were well known . . . many of them are well-known Saskatchewan entrepreneurs?

Mr. Douglas: — Yes. And a major . . . That's true. Yes. And a major proponent . . .

Ms. Atkinson: — So these well-known Saskatchewan entrepreneurs that have been successful at business were having a difficult time raising capital?

Mr. Douglas: — There was a proponent gentleman named Bob Balfour that was kind of the lead on the project that brought the other investors to the table and then came to us alongside that capital to have CIC invest.

Ms. Atkinson: — My point, I guess I want to make a point, and that is that you can be very . . . you can be a private entrepreneur, be very good at what you do, and when you try and enter into other endeavours it can be very difficult to raise capital. And that may be an argument for a continuation of some form of public involvement in order to support economic growth in the province, understanding that sometimes things — in business — sometimes things work and sometimes they don't.

Mr. Douglas: — I think that's a fair comment.

Mr. Hart: — Yes, I would say that probably even in the case of those entrepreneurs who invested alongside CIC, they had made investments in the past where they'd made money and lost money. Their best assessment was that there was a better-than-even chance of making good money on the project.

There were a number of things that turned out not to be as forecast in the business plan or in the pro formas. And the one thing you know about making an investment in an entity like this or similar, is that the pro formas that are in front of you are absolutely wrong; you don't know kind of which, in which direction they're wrong, but you know that, you're pretty confident the numbers are not going to work out as stated on paper.

But on the judgment of those people involved — and they were a number of Saskatchewan well-known entrepreneurs, as Mr. Douglas has said, in addition to a large Japanese trading company that invested \$1 million as well — their judgment was that, you know, the strength of the partners coming together was sufficient to make the business go.

There were conditions that happened subsequent, I think, and I wasn't, you know, involved in the board and can't speak to some of those issues. But I know one of the, I think, difficulties they had was General Mills in the US had taken a grain flour

mill, I think in Montana, and converted it from conventional to organic. And that after the fact instituted a major competitor from a food company that has obviously huge range and reach in terms of into the food market. Some of the other clients who were keen buyers of the product of this mill went bankrupt in California and all of that happened before the company could establish a presence in the market.

When the investors went in, they kind of remarked to me they thought that the harder part was going to be finding organic grain in the province and the easier part was going to be finding markets for the organic grain. In fact the reverse turned to be the case. You know there were various other factors that contributed to it but essentially that's what happened.

But you're absolutely right. I mean you speak to many entrepreneurs and successful ones in particular and they'll point to many losses that they've had down the road.

Unfortunately for us in a public arena like this, there is always competition for money and so the question is, you know, if you hadn't of lost the money you could have used it someplace else obviously, and so that becomes one of the issues.

But we've actually, as I've said earlier, have had a number of people look at this question about whether we really need to be in the business because if we don't need to be in the business, why are we. And the answer that has come back is for the foreseeable future we need to be in the business so we've made a deliberate strategy of trying to get the private venture capital industry built up in the province.

And last year, fortunately, Saskatchewan led the country in venture capital activity. Our activity was up 47 per cent where most of the rest of the country was flat to negative. And so we are confident that we're heading in the right direction but there's still more work to do.

Ms. Atkinson: — I just want to make this point that certainly my experience when I was the Rural Revitalization minister, people . . . There were all kinds of groups in rural Saskatchewan that were trying to add value to what we produce and found it very difficult to access capital. And you know, this is a dilemma because on the one hand you have critics who say the province . . . the public shouldn't be involved in any of this. On the other hand you see what's happening in rural Saskatchewan, and has been for decades, where we are basically the producers of raw product and we ship it out; we don't add value.

So how do you do that? And so I think there is a role for the public in this. But obviously we also need to understand that in any kind of venture there are risks. And you can have the best business case or plan in the world — I've experienced this — and your competitor can open up . . . or you could get a new competitor within days and it can impact your numbers.

Mr. Hart: — That's a fair assessment I think, yes.

Ms. Atkinson: — Okay, thank you.

Mr. Douglas: — If I could just add one point to what Ms. Atkinson is saying about the role of government in this respect. I think she makes a very valid point about the availability of

venture capital and making sure it's there to support the growth of business and adding of value in rural Saskatchewan.

At the same time you also have to judge the performance based on the overall record of the portfolio as opposed to, I think, focusing on some of the problems. And on that basis, I think this portfolio fares very well with a net income of \$11.6 million last year.

The Chair: — Okay. Mr. Wall, do you have any further questions at this point?

Mr. Wall: — No. But I'd like to . . . Hopefully we can come back to some of these issues next week.

The Chair: — Okay. Next week, I would like to deal specifically with the question of payee information. If subsequent to that we need to visit or revisit other issues with respect to CIC, we can do that either . . . well, I would think the week after that.

Mr. Wall: — Not that day?

The Chair: — Well . . . (inaudible interjection) . . . Yes. Well it's a question of the details of what you agree on, Mr. Wall.

Mr. Wall: — Sure. Well we'll bring it back another week then, with apologies to the officials.

The Chair: — Yes. Okay. So we look forward to seeing you next week, Mr. Hart, and bring with you the officials that you need with respect to payee information.

Could someone move a motion to adjourn? Moved by Ms. Jones that we adjourn. All agreed.

The committee adjourned at 11:20.

