UNIVERSITY OF CALGARY

THE SCHOOL OF PUBLIC POLICY
SPP Research Papers

Volume 8 • Issue 13 • March 2015

THE SIREN SONG OF ECONOMIC DIVERSIFICATION: ALBERTA'S LEGACY OF LOSS

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SUMMARY

Former Alberta premier Peter Lougheed is celebrated for his defence of the province and Western Canada during the energy wars of the 1970s, and deservedly so. Prime Minister Pierre Trudeau was a formidable opponent. He was able and willing to use the full arsenal of federal powers to redirect soaring western energy revenues away from Alberta to Ottawa. For those of us in Western Canada, it is unpleasant to imagine what the outcome of this struggle would have been if a lesser man than Peter Lougheed had been at Alberta's helm.

But there is another aspect of the Lougheed legacy that is less remembered because it is less celebrated—also deservedly so. These were Lougheed's ambitious economic diversification projects. Between 1973 and 1993 (when Ralph Klein became premier), the Lougheed-Getty "forced-growth" economic diversification projects are conservatively estimated to have cost Albertans $2.2 billion. While former premier Don Getty got most the blame for these losses (as many occurred during his watch), most of these programs began earlier. Lougheed's push for government-led diversification of the Alberta economy was a policy hallmark of his 1971 electoral breakthrough, and marked a sharp break from three decades of Social Credit laissez-faire policies.

The Lougheed-Getty diversification fiascos are of more than just historical interest. While the subsequent Progressive Conservative (PC) regime of Premier Ralph Klein (1993–2006) followed an explicit philosophy of "government is not in the business of business," the more recent Stelmach (2006–11) and Redford (2011-14) governments have not. Both have embraced government-sponsored "value-added" and diversification initiatives, including the North West Redwater Partnership upgrader and two new endowments to provide "funding for social and cultural innovation, and agricultural innovation."[†]

As Alberta's fifth premier in the past nine years, Jim Prentice, takes the helm and tries to restore some stability to Alberta's public finances, it merits revisiting the Lougheed-Getty experience for lessons learned. Our read of their record cautions against going down the same road again. While we identify several successes (e.g., Syncrude, Alberta Energy Company, and the ethane-based petrochemical industry), these were mostly in the hydrocarbon energy sector, and so contributed little to diversifying Alberta's economy. Our analysis identifies the largest dollar losses (the "Dirty Dozen"), several of which suggest that failure to control costs is endemic to government-led projects. Last but not least, the sheer number and diversity of government-funded projects reflects an unhealthy culture of corporate cronyism. With billions of dollars sitting in the newly created Alberta Heritage Savings Trust Fund earmarked for "diversification" and "capital projects," the temptation to spend became irresistible. The Heritage Fund, rather than serving its original purpose of a long-term "rainy-day account," became a giant slush fund for ministers' pet projects. The result is that, in real dollars, the Heritage Savings Trust Fund has a lower net worth in 2015 than it did in 1987.

By the time Klein won the leadership of the PCs in 1993, his predecessors had racked up over $23 billion in net debt. Klein is widely celebrated by some (and criticized by others) for the harsh budget cuts he made to eliminate the structural deficit he inherited. Less well known is that the Klein team also terminated almost all the Lougheed-Getty diversification and stimulus programs. In their stead, the Klein governments—under the leadership of treasurers Jim Dinning and Stockwell Day—pursued a diversification policy based on macroeconomics: making Alberta the most tax-competitive jurisdiction in Canada. This "build-it-and-they-will-come" approach was intended to attract both financial and human capital. This approach has enjoyed modest success thus far, as witnessed in the growth of the financial services sector and the relocation of many corporate head offices to Calgary. It is clearly a lower-risk path to sustained prosperity than the ill-fated, government-led "forced-growth" initiatives of the Lougheed-Getty era.

[†] Bill 1, Savings Management Act, Spring Sitting, 2014, http://www.qp.alberta.ca/549.cfm?page=s02p5_14.CFM&leg_type=spring.

REGIME CHANGE IN ALBERTA: LOUGHEED AND DIVERSIFICATION

An airline, a meatpacking operation and a cellphone company—in a province widely seen as the bastion of free enterprise in Canada, these three disparate businesses once shared a surprising common denominator: government ownership. For more than a quarter-century, government-backed economic diversification was a priority for Alberta's Progressive Conservatives (PCs). In 1965, Peter Lougheed, the party's 37-year-old newly elected leader, travelled to Nova Scotia to meet with the reigning doyen of Tory premiers. As the president of Nova Scotia's provincial PC party nearly two decades earlier, Robert Stanfield had successfully surmounted the same challenge that now faced the young Albertan: how to transform an anemic political organization into a party capable of forming government. It was not Stanfield's political track record alone that impressed Lougheed, however. In the Crown corporation created by the Nova Scotia PCs to attract industry to the province, Industrial Estates Ltd., Lougheed saw an activist instrument befitting the economic ambitions he held for his own province.[1]

Various authors have attempted to explain the psychological underpinnings of Lougheed's economic policies. Allan Hustak opens his biography of Lougheed with the oft-told anecdote of a young Peter watching the estate amassed by his grandfather, Senator James Lougheed, snapped up one indignity-inducing bid at a time at the government's behest.[2] Like Alberta's own economy, the family's estate had been overextended and exposed, with the Depression dramatically reducing the value of the family's significant property holdings.[3] Once one of Calgary's wealthiest families, the Lougheeds were nearly wiped out, a humiliation the future premier of Alberta would never forget. After tracing his family's financial trajectory in *Prairie Capitalism*, their seminal study of resource policies in Alberta and Saskatchewan, John Richards and Larry Pratt pose the question, "Is it too fanciful to speculate that his family's sudden decline during the depression explains something of his near obsession with prairie diversification?"[4]

One of Lougheed's enduring criticisms of Alberta's Social Credit government was that its passive economic policies had kept the province chained to the production of raw, unfinished staples, including oil.[5] Ernest Manning, the long-serving Social Credit premier (1943–1968), had eschewed province-building through costly government intervention.[6] Manning was acutely aware of the dangers posed by excessive government debt, having served as finance minister when Alberta was forced to default on its debt, the only province in Canadian history to do so. Neither Manning's memories nor his reluctance were shared by Lougheed. In the words of Richards and Pratt, Lougheed was clear in his commitment to "an activist government to 'sow the oil' and steer the province's future development."[7] Campaigning on the promise to diversify Alberta's economy, Lougheed led the Alberta PCs to a majority government in 1971, ending the three-and-half-decade Social Credit dynasty.

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1 Allan Hustak, *Peter Lougheed* (Toronto: McClelland and Stewart, 1979), 73.

2 Ibid., 9-10.

3 John Richards and Larry Pratt, *Prairie Capitalism: Power and Influence in the New West* (Toronto: McClelland and Stewart, 1979), 154.

4 Ibid., 155.

5 Barry Cooper and Mebs Kanji, *Governing in Post-Deficit Times: Alberta in the Klein Years* (Toronto: University of Toronto Press, 2000), 18.

6 Herb Emery, "1986: The Bloom Comes Off the Wild Rose Province," in *Alberta Formed, Alberta Transformed*, ed. Michael Payne et al. (Edmonton and Calgary: University of Alberta Press and University of Calgary Press, 2006), 719.

7 Richards and Pratt, *Prairie Capitalism*, 231.

GETTING DOWN — AND INTO — BUSINESS

As laid out in the May 1974 government memo "The Management of Growth," the Lougheed government's economic objective was to transition the province from "a primarily extractive economy, where our resources are exported for processing to other parts of Canada and the rest of the world, to an industrialized economy which will see further processing of our raw materials, increased manufacturing and … satisfying employment opportunities for Albertans."[8] Lougheed rose later that fall in the legislature to reiterate the government's commitment to wean Alberta from oil and gas production, and to further elaborate on the government's plan by outlining four "supplementary" goals: 1) balance economic growth between the province's large metropolitan areas and its smaller centres; 2) strengthen small and locally controlled businesses; 3) upgrade the skills of Albertans; and 4) capitalize on Alberta's natural advantages, including its tourism potential, food-growing potential, and its ability to act as a gateway to the North.[9] According to the premier, "This basic goal [of becoming less reliant on the sale of unprocessed resources] and these four supplementary goals in total give us the foundation for our overall strategy."[10]

Diversification Through Another Lens

While the oft-stated goal of Lougheed's diversification policies was to lessen Alberta's reliance on oil and gas, many of his government's diversification initiatives, in reality, focused on increasing the degree of processing raw materials. It is useful to recognize that diversification of a regional economy can also encompass three additional forms: industrial diversification, market diversification and diversification in the range of products produced by existing industries. There are many examples of Alberta companies succeeding at finding new export markets for their products, both with and without government assistance. Similarly, when a company can expand the range of products it sells, other things being equal, it diversifies and thus stabilizes its income flows. Industrial diversification—the attraction of entirely new industries to a province—has been the norm in Canadian experience, but also the least successful. Governments are attracted to this model because it allows them to take credit when initiatives succeed. But success is rare, and the explanation for this is straightforward: if a project were economically viable—i.e., profitable—the private sector would already have done it. Structural change is both expensive and improbable when it conflicts with market realities (e.g., distance to markets, availability and costs of capital and labour, etc.). Accordingly, economists counsel that government-led diversification initiatives should encompass all four forms of diversification and, more generally, pursue policies that expand rather than try to change the region's economy. In particular, successful diversification initiatives build on the natural comparative advantages that the region already enjoys.

In 1972, the Lougheed government took the first significant step towards realizing its economic vision when it created the Alberta Agricultural Development Corporation and the Alberta Opportunity Company, two Crown corporations whose express purpose was to provide financial assistance to those unable to obtain similar support from the private sector. The following year, the Alberta government was granted an option for the purchase of 938,400 shares by Interprovincial Steel and Pipe Corporation Ltd. (IPSCO), a major western Canadian steelmaker based in Regina.[11] The government later chose to exercise its option, acquiring a 20 per cent share of the company,[12] a move it contended would help in the development of a provincially based steel industry. The government never followed through, however, choosing instead to later sell its shares. Other diversification investments made during this period

8 Ibid., 232.

9 *Alberta Hansard*, 1974, III, 3133.

10 Ibid.

11 "Alberta is granted an option on Ipsco shares," *The Globe and Mail*, December 20, 1973, B2.

12 "Alberta to exercise option on Ipsco Shares," *The Globe and Mail*, April 12, 1974, B1.

included a 10 per cent equity investment in the Syncrude project and the founding of the Alberta Energy Company, a public-private joint venture to initiate a capital investment program and to lessen Alberta's dependence on foreign-owned oil companies.

The boldest diversification initiative taken during the Lougheed government's first term in office was the purchase of Pacific Western Airlines (PWA). Lougheed feared that British Columbia's NDP government was going to buy PWA and orient the airline to the West Coast — thus threatening Alberta's position as the gateway to the North, one of the government's diversification goals. To pre-empt this, the Alberta government bought PWA in the summer of 1974 for $37.3 million.[13] Holding 99.7 per cent of PWA's voting shares, the government was effectively the sole proprietor of the airline.[14]

The purchase set off a storm of controversy, including among Lougheed's own MLAs, earning Lougheed the moniker "Peter the Red." The promise to divest the government of the airline was included among the commitments in the party's 1982 election platform.[15] The PCs followed through on the commitment beginning the following year, selling the government's shares (the bulk, 3.7 million, in December 1983,[16] followed by a further 1.3 million in August 1984)[17] for nearly $54 million. While it was an unpopular acquisition, PWA had not been a drain on the treasury. Indeed, PWA was the only one of Canada's seven major carriers to turn a profit in 1982.[18]

THE ALBERTA HERITAGE SAVINGS TRUST FUND

In order to underwrite its diversification efforts, the Lougheed government moved to maximize resource rents during its first term. In 1972, the PCs introduced the Natural Resource Revenue Plan, which sought to increase the royalty rates negotiated by Social Credit nearly a quarter-century earlier. Under the new plan, royalty rates would jump from 17 per cent of gross production to 23 per cent.[19] In a move that angered the industry, the government subsequently withdrew the proposed royalty plan, announcing that future royalties instead would rise with the price of oil.[20] And rise they would.

On October 6, 1973, a coalition of Arab states, led by Egypt and Syria, launched a surprise attack on Israel. As they had during the Six-Day War in 1967, the Israelis successfully repelled the onslaught. To punish the West for supporting the Jewish state, OPEC imposed a partial oil embargo in the wake of the Yom Kippur War, which resulted in a staggering fourfold increase in international oil prices, from US$3 to US$12 a barrel.[21] In spite of Ottawa's imposition of price controls, export restrictions and higher taxes on energy producers, prodigious oil revenues began to flow into Alberta's coffers, a trend that would

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13 Darcy Henton, "Activist reputation earned over decades," *Calgary Herald*, September 15, 2012, A2.

14 Douglas F. Stevens, *Corporate Autonomy and Institutional Control: The Crown Corporation as a Problem in Organizational Design* (Montreal/Kingston: McGill-Queen's University Press, 1993), 55.

15 David G. Wood, *The Lougheed Legacy* (Toronto: Key Porter Books, 1985), 126.

16 Anthony McCallum, "Alberta to cut PWA stake to 14.9%," *The Globe and Mail*, December 6, 1983, B5.

17 "Alberta reduces its holding in PWA, *The Globe and Mail*, December 18, 1984, B6.

18 McCallum, "Alberta to cut."

19 Cooper and Kanji, *Governing in*, 20.

20 G. Bruce Doern and Glen Toner, *The Politics of Energy: The Development and Implementation of the NEP* (Toronto: Methuen, 1985), 90.

21 Ibid., 91.

continue throughout Lougheed's three terms as premier.[22] Between 1972 and 1974 alone, the royalties collected by the government more than doubled, increasing from $260 million to $560 million.[23]

Alberta's growing wealth was not without its costs. In addition to aggravating the province's relationship with Ottawa and Ontario, Alberta's other partners in Confederation feared that the rising Prairie powerhouse's ability to lower taxes while maintaining high-quality public services would act as a vortex for investment and labour.[24] The solution devised by the Lougheed government was to create the Alberta Heritage Savings Trust Fund. Promised during the 1975 provincial election, the Heritage Fund was established the following year.[25] The Heritage Fund held out the opportunity for Alberta to avoid the pitfalls that await wealthy "petro-state" regimes. The Heritage Fund would not only save current energy revenues for that inevitable future day when Alberta's non-renewable resources begin to run out. It would also reduce revenue volatility in annual budgeting cycles, and it even earmarked a portion of its investment portfolios to be invested in or loaned to other Canadian provinces. Lougheed's creation of the Heritage Fund, to quote one analyst, was both "an act of statesmanship and astute politics."[26]

As required by Section 5 of the Alberta Heritage Savings Trust Fund Act, 30 per cent of the province's non-renewable resource revenues were transferred to the Heritage Fund between 1976 and 1982, an amount that totaled $8.3 billion.[27] Section 6 of the act detailed how its assets were to be invested: up to 20 per cent of the assets were to go to the fund's Capital Projects Division; a slightly smaller percentage, a maximum of 15 per cent, was devoted to its Canada Investment Division; and the remainder, at least 65 per cent, was designated for its Alberta Investment Division, part of whose legislated mandate was to "strengthen and diversify the economy of Alberta."[28]

A number of significant investments were made from the fund during this period, including Syncrude, the Alberta Energy Company and the Ridley Grain Terminal in Prince Rupert, B.C. The primary activity of the Heritage Fund's largest investment division, the Alberta Investment Division, was providing financial support to a host of rapidly growing Crown corporations, including the Alberta Housing Corporation, as well as the aforementioned Alberta Agriculture Development Corporation and the Alberta Opportunity Company.

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22 Robert L. Ascah, "Savings of Non-renewable Resource Revenue: Why is it so Difficult? A Survey of Leaders' Opinions," in *Boom and Bust Again: Policy Challenges for a Commodity-Based Economy,* ed. David L. Ryan (Edmonton: University of Alberta Press, 2013), 163.

23 Robert Mansell, "Fiscal Restructuring in Alberta: An Overview," in *A Government Reinvented: A Study of Alberta's Deficit Elimination Program*, ed. Christopher J. Bruce et al. (Toronto: Oxford University Press, 1997), 23.

24 Ibid.

25 Alvin Finkel, "Myths Communicated by Two Alberta Dynasties," in *How Canadians Communicate IV: Media and Politics,* eds. David Taras and Christopher Waddell (Edmonton: AU Press, 2012), 195.

26 Ascah, "Savings of," 163.

27 Mansell, "Fiscal Restructuring," 24.

28 Bill 35, *The Alberta Heritage Savings Trust Fund Act*, 2nd Session, 18th Legislature, 1976.

THE DIRTY DOZEN

However good government-led economic diversification may sound in theory, practice often turns out to be a different story. And Alberta learned this hard way. By the early 1990s, the government had lost an estimated $2.3 billion (not adjusted for inflation)[29, 30] on various unsuccessful initiatives. What follows is a list of the 12 most costly failed diversification projects undertaken by the Lougheed/Getty PCs.

NovaTel

NovaTel was a joint venture between Nova Corp. and Telus's predecessor, Alberta Government Telephones (AGT), to manufacture cellphones. Nova sold AGT its share for $42.5 million in 1989. The government began to privatize AGT, including NovaTel, the following year. While a prospectus issued to potential investors in AGT estimated NovaTel's profits for the second half of 1990 at $16.9 million, the company was actually expected to lose $4 million, a discrepancy that became evident when German-owned Robert Bosch GmbH began examining the company's books with a view to purchasing a 50 per cent interest. The shortfall in earnings not only persuaded Bosch to drop its bid for NovaTel, it also put an end to attempts to privatize the company, leaving the Alberta government as the sole owner.[31] The government finally sold NovaTel in May 1992 at a loss of hundreds of millions of dollars. Charged with determining the extent of the financial hit, auditor general Donald Salmon estimated the total loss to be between $544 million and $614 million.[32]

Swan Hills Waste Treatment Plant

In 1984, Swan Hills was chosen as the site for a plant to process hazardous waste. Three years later, the doors opened on this joint venture between the provincial government and Bovar Inc. The plant's ownership was split 60-40 between Bovar and the government. From the outset, the plant operated well below capacity. Figures for 1994, for instance, showed that Swan Hills was only operating at 46 per cent capacity, raising the question of whether Swan Hills was pricing itself out of the market. A subsequent study found that this is precisely what happened.[33] The government's contract with Bovar had no incentives for Bovar to control either capital or operating costs. In fact, the opposite was true. As the contract guaranteed Bovar a minimum rate of return on capital investment, Bovar had an incentive to overbuild. And it did. The larger its capital investment, the larger its profits. In 1995, the Klein government, which had inherited the project from Getty, chose to bail out at a cost $147.5 million ($80 million to cover a loan and another $67 million to cover the operations and the rate of return promised to Bovar). In total, the auditor general estimated that the government spent at least $440 million on the ill-fated project.[34]

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29 Mark Milke, *Tax Me, I'm Canadian: How Politicians Spend Your Money* (Calgary: Thomas and Black, 2002), 197.

30 The source of this figure is the Canadian Taxpayers Federation. Using 15 years of the *Alberta Public Accounts* (1980–1995), the organization arrived at the sum by adding the losses incurred on the "Dirty Dozen" and other, smaller diversification failures. Although other figures have periodically appeared (e.g., in his book, *Ralph Could Have Been a Superstar: Tales of the Klein Era*, Rich Vivone claims the total amount lost was $5 billion. He does not however explain how he arrived at this figure), the $2.3-billion figure has been widely accepted in the media and cited in academic sources, including Robert Mansell's article "Fiscal Restructuring in Alberta: An Overview."

31 John Howse, "A costly wrong number," *Maclean's*, July 20, 1992, 38.

32 Canada. Alberta. Office of the Auditor General, *Report of the Auditor General on NovAtel Communications Ltd.* (Edmonton, AB: 1992), 110.

33 Jack M. Mintz, "An Evaluation of the Joint Venture Agreement Establishing the Alberta Special Waste Management System," October 17, 1995.

34 Canada. Alberta. Office of the Auditor General, *Annual Report of the Auditor General 1994-95* (Edmonton, AB: 1995), 12.

Lloydminster Bi-Provincial Upgrader

In the late 1980s, the Getty government announced a joint venture between Alberta, Saskatchewan, the federal government and Husky Oil to produce 46,000 barrels of crude oil per day from bitumen reserves in the two provinces. Alberta's initial investment was announced as $305 million, which would come from the Alberta Investment Division of the Heritage Fund, for which the province would receive a 24 per cent participating interest.[35] In the end, the province spent $404 million on capital costs and cost overruns.[36] Alberta spent a further $19.3 million on operating costs. Seeing no end to the losses associated with the upgrader, Alberta and Ottawa struck a deal in 1994 to sell their shares back to the other two partners in the project for a fraction of what they had already invested.[37] From its multi-million-dollar investment, Alberta received a paltry $32 million.[38] Four years later, Saskatchewan sold its shares to Husky for $310 million, recouping the province's entire investment.[39]

Millar Western Pulp Ltd.

Although investments were made under Lougheed to bolster Alberta's nascent forestry industry, his successor took government-backed support to the next level, leading one commentator to note that the sector was the "centrepiece of the Getty-era diversification efforts."[40] In 1987, the Getty government used the Alberta Investment Division of the Heritage Fund to provide a $120-million loan to Millar Western Pulp Ltd. The government loan was to help finance the construction of a $204-million pulp mill, which the government touted as being "the world's largest and most technologically advanced bleached chemithermo-mechanical (CTMP) mill."[41] The province had known as early as 1994 that Millar Western was in trouble, when it wrote off some of the interest it was owed. By 1997, the pulp mill had only returned a profit during one year. In April of that year, the government announced it was writing off a $272-million loan (both principal and interest) to Millar Western Pulp in exchange for a $27.8-million payment from the company. Even though the initial loan had been made a decade earlier, the government had not received a dime in repayment.[42]

Gainers

Arguing that his meatpacking plant was uncompetitive, flamboyant Edmonton entrepreneur Peter Pocklington moved to replace his unionized employees with lower-paid workers from the ranks of the province's unemployed.[43] A tumultuous six-month strike ensued over the summer and fall of 1986. Desperate to push the story from the headlines, Premier Getty stepped into the fray, offering

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35 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1988-89* (Edmonton, AB: 1989), 12.

36 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1994-95*, (Edmonton, AB: 1995), 28.

37 Barrie McKenna and Cathryn Motherwell, "$1-billion oil stake abandoned: Ottawa, Edmonton Walk away from plant gushing losses," *The Globe and Mail*, August 5, 1994, A1.

38 Janice MacKinnon, *Minding the Public Purse: The Fiscal Crisis, Political Trade-Offs, and Canada's Future* (Montreal and Kingston: McGill-Queen's University Press, 2003), 94.

39 Ibid., 95.

40 George Koch, "Getty returns as quarterback and fumbles nearly every ball," in *Alberta Takes the Lead: 1984-2000,* ed. Paul Bunner (Edmonton: History Book Publications Ltd., 2003), 36.

41 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1987-88* (Edmonton, AB: 1988), 10.

42 Steve Chase and Daryl Slade, "Province writes off $259.2M," *Calgary Herald*, April 2, 1997, A1.

43 Emery, "1986: The Bloom," 717.

Pocklington a government-guaranteed loan in return for settling the strike.[44] In its bid to keep the meatpacker afloat, the province made a total of $134 million in loans and loan guarantees.[45] Its efforts, however, were for naught. Three years later, Gainers defaulted on its loans, and the government found itself in the meatpacking business. After running the company at a loss, the province eventually sold Gainers to Burns Foods Ltd. The provincial auditor general determined the province's total loss at $209 million in total.[46]

Magnesium Company of Canada

In 1988, the Getty government guaranteed a $103-million loan for the Magnesium Company of Canada (MagCan) to build a new smelter in High River, which the premier referred to as the "jewel" of his government's economic diversification program.[47]

Soon after the smelter's completion, world magnesium prices plunged, the smelter developed technical problems, and MagCan walked away from it, leaving taxpayers with a massive loan and an idle facility. For a number of years, the government tried to sell the plant to any company that would operate it, and at one point considered selling it off piece by piece.[48] In addition to the loan guarantee, the province also had to pay ongoing expenses of $1 million a month in additional interest and maintenance payments.[49] The Klein government eventually offloaded the plant to Alberta Natural Gas Co. Ltd. for less than $5 million.[50] In total, the province lost $164 million on the development of this "jewel."[51]

Prince Rupert Grain Terminal (Ridley Grain Ltd.)

In 1982, the provincial government announced $106.3 million in funding from the Alberta Investment Division of the Heritage Fund for the construction of a grain terminal in Prince Rupert.[52] Completed in 1984, the terminal was the single largest grain installation of its kind in the country, increasing the capacity of Canada's westbound grain transportation by 25 per cent.[53] The terminal, however, has never fulfilled its promise. Despite a throughput capacity of seven million tonnes, the facility averaged just 3.8 million tonnes annually (from a low of 1.1 million tonnes in crop year 2001–02 to a high of 5.3 million tonnes in 1991–92) between 1990 and 2012. The money owed by the terminal is one of the last big government business loans still on the province's books, with $161 million still outstanding at the end of fiscal year 2013.[54]

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44 Ibid.

45 "High-risk assistance," *Calgary Herald*, September 11, 2004, p. A20.

46 Canada. Alberta. Office of the Auditor General, *Statement of Loss To The Province From Its Involvement With Gainers Inc.* (Edmonton, AB: 1994), 1.

47 "Another boondoggle that won't die: Getty's MagCan investment will be liquidated for 2% of its cost," *Western Report*, January 16, 1995, 12.

48 Ibid.

49 Tom Arnold, "Bleeding stopped, gov't says; MagCan a $164.3M loss," *Edmonton Journal*, April 29, 1995, A1.

50 Anthony Johnson, "Alberta Natural Gas set to back Magcan," *Calgary Herald*, April 29, 1995, A1.

51 Arnold, "Bleeding stopped," A1.

52 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1982-83* (Edmonton, AB: 1983), 21-23.

53 Oliver Bertin, "Prince Rupert terminal largest in country," *The Globe and Mail*, November 26, 1984, B6.

54 Canada. Alberta. Alberta Treasury Board and Finance, *2014-17 Fiscal Plan* (Edmonton, AB: 2014), 144.

Alberta Pacific Forest Industries (Al-Pac)

In 1991, the Getty government provided financial backing to the three companies (Crestwood Forest Industries Ltd., Kanzaki Paper Canada Ltd. and MC Forest Investment Inc.) behind the Alberta Pacific pulp mill complex near Athabasca. An annual production capacity of 496,000 tonnes was projected for the project. Touting the project as "one of the largest capital investments that Alberta has attracted in the past decade,"[55] the government made a total of $250 million in loans to the three companies, from the Alberta Investment Division of the Heritage Fund. The government began negotiating with Al-Pac in the summer of 1997 after the company said poor pulp prices prevented it from making interest payments on the loan.[56] The following year, the Klein government announced it would write off $155 million in interest owed by the mill partners in exchange for the return of the $250 million it had loaned the mill.[57]

Chembiomed

The University of Alberta launched the medical-research firm with the support of government loans in 1977.[58] The government later purchased a majority of the company, which would go on to become involved in areas such as organ transplant drugs and pharmaceuticals to fight HIV. After taking initial steps to wind the money-losing company down in late 1991, the government chose to cut its losses four years later under Klein, paying off the $13.2 million in outstanding debt rather than continuing to build up interest charges. This money was in addition to the more than $30 million the government had pumped into the company, including writing off $19 million in shares, paying off a $3.7-million loan and spending another $8 million to wind the company down, placing the government's total loss at nearly $44 million.[59]

Canadian Commercial Bank

In fiscal 1981–82, the government purchased $5 million in corporate debentures of the Edmonton-based Canadian Commercial Bank (CCB).[60] The investment reflected Lougheed's desire to establish a homegrown financial sector. The bank found itself in financial difficulty shortly after its founding in 1975, making a series of bad loans to companies in the real estate, energy and construction sectors. Despite a rescue plan involving the province, Ottawa, and six chartered banks, the bank collapsed in the fall of 1985. When the dust had settled on the largest bank failure in Canadian history,[61] the CCB debacle was estimated to have cost Alberta taxpayers $56 million.[62]

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55 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1991-92* (Edmonton, AB: 1992), 14.

56 Allan Chambers, "Gov't lets Al-Pac off the hook; Province owed $391M, settles loan for only $260M," *Edmonton Journal*, March 4, 1998, A1.

57 Steve Chase, "Pulp-mill-loan risk too high, study says: Province unloaded deal at a loss," *Calgary Herald*, May 20, 1998, A5.

58 Barry Nelson, "Alberta's Expensive Bid for Brains," *Report on Business Magazine*, March 29, 1985, 42.

59 Brian Laghi, "Province swallows Chembiomed red ink," *Edmonton Journal*, July 1, 1995, A5.

60 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1981-82* (Edmonton, AB: 1982), 22.

61 Chris Zdeb, "Sept. 3, 1985: Canadian Commercial Bank collapses with $60M at stake," *Edmonton Journal*, September 3, 2013, A2.

62 George Koch, "Greed, neglect and the NEP wreck Alberta's 'House of Cards,'" in *Alberta Takes the Lead: 1984-2000,* ed. Paul Bunner (Edmonton: History Book Publications Ltd., 2003), 35.

Northern Lite Canola

In 1973, Lougheed's agriculture minister, Dr. Hugh Horner, put his support behind a co-operative's proposal to build a canola-crushing plant in Sexsmith to improve market access for producers in northern Alberta.[63] Initially slated to cost $5 million with a maximum of $2 million coming from government loan guarantees, the plant's price tag had ballooned to $14 million by the time construction was completed in 1977,[64] with the government's total stake sitting at about $11 million ($6 million in loan guarantees and another $5 million in guarantees on farmers' equity in the project).[65] This inauspicious start was followed by years of poor management that eventually landed the company in receivership in 1985. In addition to the loss of the farmers' investments, the failure cost the government about $34 million in loan guarantees gone bad.[66] Undeterred, the Getty government paid $8.6 million to get Northern Lite out of receivership two years later, placing the company under the control of a government agency, Alberta Terminals Ltd. The company, however, continued to flounder. In addition to the millions already lost, the province now had to pick up the tab for the losses incurred after Alberta Terminals Ltd. similarly failed to turn a profit. The Klein PCs eventually sold the operation to Canola Industries Canada for $6 million in 1994.[67] In just under two decades, the poorly conceived and ineptly run plant cost the province roughly $50 million.[68]

General Systems Research

General System Research was a company specializing in industrial laser technology. The provincial government chose to bolster the prospects of this "recognized world leader" with $30.6 million in loans, loan guarantees, and share purchases beginning in 1983.[69] Despite generous government support, General System Research went bankrupt in 1990. Attributing the company's failure to a lack of private investment, the government's minister for technology and research, Fred Stewart, conceded it was highly unlikely that the province would recover any of its money. Unfortunately for the taxpayers of Alberta, he was right.

THE (QUALIFIED) SUCCESSES

Not every project and program undertaken in the name of economic diversification by the Lougheed and Getty governments ended in failure. What follows is a summary of six initiatives that ultimately benefitted the provincial economy. What is noteworthy however, is that four of the six are directly linked to Alberta's hydrocarbon energy sector. In other words, they built on comparative advantages that Alberta already enjoyed, but in so doing, achieved less in terms of diversification.

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63 Duncan Thorne, "Canola plant costs taxpayers about $1M a job; Private sector frustrated," *Edmonton Journal*, March 17, 1994, D1.

64 Corinna Schuler, "Province unloads canola-crushing firm; Taxpayer's tab estimated at $68 million," *Edmonton Journal*, March 3, 1994, D11.

65 Thorne, "Canola plant."

66 Schuler, "Province unloads."

67 "Troubled plant sold by province," *Calgary Herald*, March 3, 1994, C4.

68 Chambers, "Gov't lets."

69 Richard Helm, "Province will lose $30.6M; Subsidized firm in receivership," *Edmonton Journal*, January 12, 1990, A1.

Syncrude

Formed in 1964 to develop Alberta's vast but untapped oilsands, the Syncrude consortium included Canada-Cities Service Ltd., Gulf Oil Canada, Atlantic Richfield and Imperial Oil. A decade later, the consortium had little in the way of production and revenues, but its costs had more than doubled to over $2 billion. In December 1974, Atlantic Richfield abandoned the project and its 30 per cent stake. With Syncrude on the brink of collapse, the Lougheed government played a decisive role in getting the project up and running, bringing in not just the federal, but also the Ontario government. The province's initial 10 per cent equity investment in the project was held in the Heritage Fund. As part of the deal, Alberta agreed to make loans to Gulf and Cities of $100 million each by way of convertible debentures.[70] In the fall of 1981, the province later chose to convert the roughly $236 million in loan debentures into shares in the project.[71] The province sold its remaining 11.74 per cent share in Syncrude to Athabasca Oil Sands Investment Inc. for $352.2 million in 1995.[72] The Heritage Fund had received nearly $700 million in income from Syncrude before the province divested itself completely. To date, more than $14.6 billion in royalty payments, federal taxes and provincial taxes have been collected from Syncrude.[73]

Alberta Energy Company (AEC)

AEC was created in 1973 to initiate a capital investment program and to lessen Alberta's dependence on foreign-owned oil companies. Over the years, AEC's activities included oil and gas exploration, pipelines, steel and coal, petrochemicals, forest products and development and investment in Syncrude.[74] AEC also held an exclusive lease in the development of the shallow gas reserves of the Suffield Block,[75] a field that turned out to be a cash cow that funded many of AEC's other initiatives.[76] Initially holding a 50 per cent interest, the Alberta government gradually reduced its holding before fully divesting its remaining 36 per cent interest in 1993.[77] AEC merged with PanCanadian Energy Corp. in 2002 to create Encana.

The Ethane-Based Petrochemical Industry

Capitalizing on Alberta's "assured supply of petrochemical feedback"[78] was one of the goals contained in the economic strategy Lougheed unveiled in the fall of 1974. While the province had been home to a petrochemical industry since the Second World War, it had been a small and narrowly based one.

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70 Canada. Alberta. Alberta Treasury, *Alberta Heritage Saving Trust Fund First Annual Report 1976-77* (Edmonton, AB: 1977), 33.

71 "Alberta to raise Syncrude equity," *The Globe and Mail*, November 6, 1981, B5.

72 Alan Boras, "Province sells off Syncrude," *Calgary Herald*, October 11, 1995, A1.

73 Syncrude Canada Ltd. website, "About Syncrude," http://www.syncrude.ca/about-syncrude/economic-contribution/.

74 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1985*-86 (Edmonton, AB: 1986), 14.

75 The Suffield Block is a 1,100 sq. mi. area in southeastern Alberta that was expropriated by the province during the Second World War, on behalf of the federal government, to serve as a military training base. At the end of the war, Alberta transferred ownership of the Suffield Block to the federal government in exchange for other buildings and infrastructure built in Alberta during the war. Alberta, however, maintained all sub-surface mineral rights in the Suffield Block, which turned out to have substantial natural gas reserves. Alberta Energy Company was subsequently given the exclusive right to develop these reserves.

76 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund First Annual Report 1976-77* (Edmonton, AB: 1977), 35.

77 *Historica Canada*, "Alberta Energy Company Limited," http://www.thecanadianencyclopedia.ca/en/article/alberta-energy-company-ltd/.

78 *Alberta Hansard*, 1974, III, 3133.

The premier was determined to expand the industry by leveraging the availability, cost and security of Alberta's natural gas supplies.[79] Prior to the mid-1970s, virtually all the ethane extracted from the province's natural gas was shipped out of the province. In 1975, the Lougheed government moved to stop this.

That September, Dow Chemical of Canada, Dome Petroleum, the Alberta Gas Ethylene Company and the Alberta Gas Trunk Line Company, wrote R.W. Dowling, the province's business development and tourism minister, requesting certain commitments from the government if they built a petrochemical complex in Joffre, a small hamlet just east of Red Deer. The government responded promptly and in the affirmative.[80] Through the Dowling agreement, or "Letters of Understanding," the provincial government offered assurances of security of supply for ethane feedstock; a 10-year competitive-pricing commitment; access to required water; and equal government treatment with any future ethane-extraction projects.[81]

These regulatory incentives helped to give rise to a world-scale petrochemical industry. Private-sector actors spent billions of dollars building new, and expanding existing petrochemical plants in the province.[82] In the 10-year period between 1973 and 1983, the number of Albertans employed in the industry nearly doubled, while the value of shipments increased from $100 million to almost $2 billion annually.[83] Although these figures include Alberta's oil-based petrochemical industry,[84] it is important to stress that its ethane-based counterpart is the cornerstone of the province's petrochemical industry. Alberta is home to four ethane-cracking plants, including two of the world's largest, which together have an annual capacity to produce 8.6-billion pounds of ethylene.[85] Over the years, the ethane-based industry has played an important role in stabilizing Alberta's economy, particularly by expanding and stabilizing its exports.[86]

Today, the province's overall petrochemical and chemical industry represents more than 50 per cent of Canada's capacity.[87] Employing more than 7,800 Albertans, the industry produced over $13.5 billion in products in 2011, making it one of the largest manufacturing industries in the province.[88]

Luscar Ltd.

In the spring of 1980, the Alberta Heritage Savings Trust Fund Act was amended to create the Energy Investment Division. The first investment made under the division was the purchase of $25 million in debentures of Luscar Ltd., an Edmonton-based coal company. The proceeds went towards capital expenditures at three coal mines in the province: Luscar Mine (near Hinton), Coal Valley Mine (near

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79 Neil Seifried, "Restructuring the Canadian Petrochemical Industry: An International Problem," *The Canadian Geographer* 33 (1989): 171.

80 Charlotte Raggett, "The Economics of Extracting Ethane in Alberta Versus the US" (MA thesis, University of Calgary, 1998), 11-12.

81 Mansell and Percy, *Strength in*, 54.

82 Seifried, "Restructuring the," 173.

83 Ibid.

84 As Mansell and Percy explain in *Strength in Adversity*, the province's ethane-based industry developed alongside Alberta's already sizeable petrochemical industry.

85 Canada. Alberta. Energy Alberta, *Alberta's Energy Industry: An Overview* (Edmonton, AB: 2012), 2.

86 Mansell and Percy, *Strength in*, 54-55.

87 Western Economic Diversification Canada, "Global Competiveness Snapshot: Industrial Chemicals," http://www.wd.gc.ca/eng/12823.asp.

88 Energy Alberta, *Alberta's Energy Industry*, 2.

Edson), and Paintearth Mine (near Forestburg).[89] The loan was repaid, without incident and as scheduled, by December 1989. Luscar is currently the largest producer of coal in the country, owning or operating 10 surface mines in Alberta and Saskatchewan producing bituminous, sub-bituminous, and lignite thermal coals.[90] While the Luscar Mine closed in 2003, its processing plant is still being used to clean coal from another mine. The Coal Valley Mine and Paintearth Mine are still in operation.

Bank of Alberta/Canadian Western Bank

In fiscal 1984–85, the government spent $1.6 million to purchase 160,000 common shares of the recently established Bank of Alberta using funds from the Alberta Investment Division of the Heritage Fund.[91] Unlike the aforementioned Canadian Commercial Bank, the government did manage to back a winner in the case of the Bank of Alberta. The bank amalgamated with Western & Pacific Bank to become Canadian Western Bank (CWB) in 1988, and is currently the largest publicly traded Canadian bank based in Western Canada.

Under Klein, the PC government repositioned the Heritage Fund to maximize financial returns on investments (this overhaul included discontinuing the costly practice of investing in specific projects). On January 1, 1997, the government created two portfolios to house the investments from the "old" Heritage Fund. Beginning that year, at least $100 million was transferred each month from the new Transition Portfolio to the new Endowment Portfolio. The government's investment in CWB was transferred during fiscal 1997–98,[92] with additional transfers continuing until the first half of 2002–03 when the Transition Portfolio was wound up. As of fiscal 2010–11, the most recent year for which a detailed list of investments held in the Heritage Fund was made publicly available, the government held nearly 36,000 shares in CWB.[93]

Pacific Western Airlines (PWA)

By virtue of the fact it did not lose any money, Pacific Western Airlines can also be termed a success. While the acquisition of the airline was highly controversial—both with Albertans and within Lougheed's own cabinet—PWA did post a profit each of the years it was owned by the provincial government, from a low of $1.3 million in 1974[94] and 1975[95] to a high of $17.9 million in 1981.[96] A hands-off approach to the airline was perhaps the government's greatest contribution to PWA's success. While the airline was a Crown corporation, the mechanisms used by the government to control the airline were, in the words of Douglas Stevens, "surprisingly minimal," consisting "merely of the appointment of three additional members to the board of directors of the company, and the designation of a cabinet minister—the minister of transportation—to serve as a liaison between the Cabinet and the chairman of the PWA

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89 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1980-81* (Edmonton, AB: 1981), 23.

90 Luscar Ltd., "Public Disclosure Document: Bow City Power Project" (January 2005), 2.

91 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1984-85* (Edmonton, AB: 1985), 14.

92 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1997-98* (Edmonton, AB: 1998), 43.

93 Canada. Alberta. Finance and Enterprise, *Alberta Heritage Savings Trust Fund: Detailed List of Investments, March 31, 2011 (Unaudited)* (Edmonton, AB: 2011), 26.

94 Thomas Kennedy, "PWA will drop cargo operation in Montreal," *The Globe and Mail*, January 6, 1976, B1.

95 Thomas Kennedy, "PWA profit rises sharply to $2.3 million," *The Globe and Mail*, February 26, 1977, B12.

96 Jane Becker, "Alberta to sell off its airline to public," *The Globe and Mail*, September 28, 1982, 1.

board."[97] Following its sale in 1984, the airline continued to generate healthy profits. In 1986, PWA took over Canadian Pacific Airlines for $300 million, renaming the combined operation Canadian Airlines International. After losing money consistently throughout the 1990s,[98] Canadian Airlines was taken over by Air Canada in 2000.

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The dismal track record of the Lougheed-Getty diversification initiatives is consistent with—indeed confirms—the findings of the academic literature on what is called "forced growth." Forced growth denotes government-led initiatives to use public funds—grants, loan guarantees or tax breaks—to attract private-sector companies to develop new companies or other forms of economic activity within a government's jurisdiction. Starting with Phillip Mathias's landmark 1971 study, the forced-growth literature reveals a long and widespread pattern of policy failures—failures both in terms of the companies involved and the broader public objectives of job creation and/or diversification of the provinces' industrial sector.[99]

The factors contributing to this pattern of policy failure apply with varying degrees of force to the Alberta experience reviewed in this paper.

- Such projects/policies tend to be motivated more by politics than actual or potential economic viability. Typically, there is no high quality, independent, professional assessment of the proposed project's long-term economic viability. This leads to an underestimate and/or understatement of the risks of the project.

- Even if a government wants to do a professional risk analysis, it typically lacks the expertise to do so, and is poorly equipped to ensure that the information provided by its prospective partners is accurate and complete. Even when it is, unequal expertise means that governments tend to be out-negotiated by their more experienced counterparts.[100]

- As a result, there is a tendency for governments to take most of the risks, provide most of the capital and receive little of the profits, when there are any.

- Cronyism and political connections often influence the awarding of grants or contracts. Even when decisions are delegated to a non-partisan, independent board or committee, those appointed tend to come from the local business community; are part of the "old boy network"; and/or are "drum-beating promoters" with ties to either the governing party, key ministers or both.[101]

- For all of the above reasons, forced-growth projects often attract private-sector partners without proven track records and/or lacking in integrity, competence or financial sustainability.

- Similarly, the private-sector partners are often lacking in essential corporate business skills: accounting, audits, financial controls and accountability.

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97 Stevens, *Corporate Autonomy*, 55.

98 Peter Verburg, "Buddy, can you spare $300m," *Canadian Business*, September 10, 1999, 22.

99 Phillip Mathias, *Forced Growth: Five Studies of Government Involvement in the Development of Canada* (Toronto: James Lorimer and Co., 1971).

100 Ibid., 10.

101 Ibid., 7-8.

The much shorter list of Alberta successes during this period is also consistent with the academic literature on government-led diversification initiatives.[102] Four of the six—Syncrude, Alberta Energy Company, Luscar and the ethane-based petrochemical sector—embody most or all of the four criteria that should be satisfied before a government embarks on a forced-growth initiative: they all built on Alberta's existing strengths and comparative advantages in the area of hydrocarbon energy extraction and development.

Playing to Your Strengths

In *Strength in Adversity: A Study of the Alberta Economy*, Robert Mansell and Michael Percy argue that governments should be careful and selective in their diversification approach, limiting support to projects that:

- do not offer direct market competition for existing industries in the region;
- can demonstrate long-run viability without ongoing subsidization;
- are rooted in some clear competitive advantage in the form of access to raw materials, access to markets, labour productivity and entrepreneurial skill, innovation or agglomeration economies; and
- can make use of indigenous labour and will develop extensive backward and/or forward linkages in the region.*

* Mansell and Percy, Strength in, 130-131.

Evidence of political cronyism influencing the forced-growth initiatives of the Lougheed-Getty era recently came to light with respect to the operating concession of the then new 36-hole Kananaskis golf course complex in 1983. The winning bid for the concession to operate the new golf course went to Kan-Alta, an Edmonton company that was 60 per cent owned by three associates of Don Getty, former minister of energy and soon to be premier. Kan-Alta's bid failed to even make the initial shortlist. The company was added later, and eventually given the contract, even though it was not the highest bidder. The contract required Kan-Alta to pay the government five per cent of gross revenues, a rate that was only half the commercial rate at comparable golf courses, and no fee at all if revenues were less than $2 million annually. In addition, the government initially agreed to purchase all the equipment needed to operate the course, and then Kan-Alta would purchase this equipment from the province over a 10-year period, without interest and at prices that would be depreciated 10 per cent a year over the 10 years. If Kan-Alta had to purchase replacement equipment during this period, and its lease were not renewed, the government agreed to buy the equipment back at the original purchase price. Operators of similar publicly owned, privately managed golf courses in Alberta have described this arrangement as a "sweetheart deal."[103]

While there is no way now to determine how prevalent this kind of political cronyism was during the Lougheed-Getty era, it seems inevitable to some degree. Elected public officials do not forget the supporters who helped them win elections. And in Alberta, there is considerable overlap between the Progressive Conservative Party of Alberta and the various business elites around the province. Under these circumstances, it would be surprising if personal contacts did *not* insinuate themselves into decisions about grants and loans. This is why the academic literature insists that arm's-length,

[102] The authors acknowledge the body of literature examining the rationale for diversification strategies, including the case for direct government intervention in instances of "market failure" (i.e. when the market price does not reflect the costs and benefits to society). This work, however, lies beyond the scope of our study.

[103] Matt McClure, "Critics allege 'sweetheart deal' in 1983 Kananaskis golf agreement," *Calgary Herald*, August 8, 2014, A6.

independent committees or boards should make such decisions.[104] But even then, it is still the government that makes the appointments.

In conclusion, to equate Lougheed and Getty's diversification legacy with Ridley Terminal, MagCan and NovaTel is unfair. There were indeed some successes. That said, the Lougheed and Getty governments' efforts to replace oil and gas production with more technology-driven, less resource-dependent alternatives were largely unsuccessful. The economic "diversification" projects that proved successful were largely those that capitalized on the province's existing strengths, and not just the Crown's oil and gas reserves but private-sector expertise and capital. Forays into industrial laser technology and cellphones were simply no match for the economic opportunities to be had through the further exploitation of Alberta's non-renewable resources, as the private sector had already figured out. If there are success stories to be found, they are Syncrude and AEC, not General Systems Research or NovaTel.[105]

LOUGHEED PASSES, GETTY FUMBLES?

While the Lougheed government had taken a pragmatic approach to some of its earlier investments, it became increasingly interventionist in later years, churning out a number of white papers calling for more direct government investment to drive diversification.[106] The arrival of Don Getty following Lougheed's departure in 1985, therefore marked the continuation of a trend, not a departure, as is sometimes assumed. As Barry Cooper and Mebs Kanji colourfully argue:

> Don Getty did not fumble the ball or miss an Argo bounce,[107] and Peter Lougheed was not just lucky. In many respects their two administrations should be considered as an ensemble. Don Getty's government was the Late Show of the Lougheed years.[108]

For his part, Alberta's second PC premier was perfectly blunt about his preference for government intervention, declaring, "Government is a large stimulator of the economy … I'm not going to wait for the banks."[109] And indeed he did not.

"With the desperation of the early and mid-1980s," notes Mansell, "the government shifted to more direct methods of encouraging industrial development through the provision of loans, equity, and loan guarantees."[110] While the risks inherent in such an aggressive approach could perhaps have been afforded when the price of oil was reaching historic highs in the 1970s, it became significantly less feasible when the price plummeted in 1986, dragging provincial resource revenues down with it, from $4.5 billion in fiscal 1980–81 to $1.4 billion in fiscal 1986–87.[111]

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[104] Mansell and Percy, *Strength in*, 135: "Diversification/development programs involving direct government assistance should be administered at arms length or 'almost arms length' from the political process and should involve independent evaluations and audits, the use of a blue-ribbon panel of advisors, and extensive co-ordination with other programs and policies."

[105] The Alberta Oil Sands Technology and Research Authority (AOSTRA) and the Alberta Heritage Foundation for Medical Research Endowment Fund (AHFMR) were two initiatives that generated a number of successful commercial spinoffs. However, as the two were research and development bodies as opposed to instances of direct government intervention in the market, we have not included them among the "qualified" successes of the PC government. Please see Appendix 3 for further information on AOSTRA and AHFMR.

[106] Ascah, "Savings of," 187.

[107] Like Lougheed, Getty had played football for the Edmonton Eskimos.

[108] Cooper and Kanji, *Governing in*, 35.

[109] Koch, "Getty returns," 42.

[110] Mansell, "Fiscal Restructuring in Alberta," 34.

[111] Ibid., 29.

The growth of total outstanding loan guarantees is a telling measure of the government's frenzied approach to diversification during this period. In 1985, the year Getty assumed office, the total amount of loan guarantees stood at $465 million.[112] By the year he stepped down as premier, 1992, that total had skyrocketed to $3.78 billion,[113] an eightfold increase.[114] Reviewing the projects supported during this period, one is at a loss to discern a pattern. Be it a facility to train oil workers stationed in Southeast Asia, fire-retardant clothing or hockey helmets, the Getty government saw fit to support them all.[115] (The authors' favourite was a self-propelled tow machine that could not even be sold in Canada because it broke the law requiring water skiers to be monitored by at least one person.) With diversification losses mounting, there were few "winners" the government could point to as way of justification.

THE KLEIN YEARS

By the early 1990s, the government's fiscal ineptitude has reached its apogee. Through runaway program and capital spending, the government had amassed $22.7 billion in debt. Given that they were a contributing factor to Alberta's economic woes, diversification initiatives had decisively fallen out of favour with the public by the time Getty announced he was stepping down as premier. Articles about costly failures had become ubiquitous in the pages of the *Edmonton Journal* and *Calgary Herald* (and even the Toronto-based *Globe and Mail*). With the total losses estimated to be $2.3 billion,[116] Albertans could be forgiven for their waning enthusiasm. With its financial profligacy threatening its grip on power, the PC party opportunistically used a leadership change to try to get government finances—and its own electoral prospects—back on track.

Ironically, it was Ralph Klein, the erstwhile reporter and populist mayor of Calgary—not the titans of the boardroom that preceded him as PC leader—who chose market forces over political micromanagement to grow the economy. After promising to embrace the financial zeitgeist of the era, the PC party was able to secure another mandate under Klein, and subsequently cut spending, eliminated the deficit (and eventually, the debt), reduced the size of government and privatized a number of services.

The Klein government's approach to diversification similarly comprised macroeconomic measures, including developing a skilled workforce, streamlining regulations and encouraging private investment through a lower, more competitive tax regime.[117] Turning the page on the Lougheed/Getty era, the Klein government enacted the Business Financial Assistance Limitations Act to stop loans, loan guarantees and outright subsidies to business (the exception being small businesses),[118] and lived up to its new mantra—"government is not in the business of business"—by turning off the taps on a number of diversification initiatives and divesting the government of its interest in a number of others (see Appendix 2).

After the 9/11 al-Qaida terrorist attacks on New York and Washington, D.C., the Klein government experienced a brief but sharp drop in oil prices—and thus, government revenues. Faced with a potential deficit, it responded by slashing capital spending, but also appointed a private commission to advise

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[112] Canada. Alberta. Alberta Treasury, *Budget Address 1987*, (Edmonton, AB: 1987), 38.

[113] Canada. Alberta. Alberta Treasury, *A Financial Plan for Alberta: Budget 1993*, (Edmonton, AB: 1993), 55.

[114] From fiscal year 1986 to fiscal year 1992, total outstanding loan guarantees grew as follows: 1986: $467 million; 1987: $736 million; 1988: $1,270 million; 1989: $1,863 million; 1990: $2,704 million; 1991: $3,201 million; and 1992: $3,779 million.

[115] See Appendix 1: A Legacy of Losses/Select List of Failed Diversification Initiatives.

[116] Milke, *Tax Me,* 197.

[117] Edward J. Chambers, Jason Brisbois and Nicholas Emter, "I've Heard That Song Before: Harry James on Boom, Bust, and Diversification," in *Boom and Bust Again: Policy Challenges for a Commodity-Based Economy,* ed. David L. Ryan. (Edmonton: University of Alberta Press, 2013),111.

[118] Bill 31, *Business Financial Assistance Limitations Statutes Amendment Act*, 4th Session, 23rd Legislature, 1996.

the government on how to avoid this syndrome in the future. The subsequent report recommended the creation of a new savings account, in addition to the Heritage Savings Trust Fund, "to provide for a gradual but sustained reduction in our reliance on natural resource revenues and a focused attempt to build financial and other strategic assets to maintain and improve the Alberta Advantage."[119]

The following year, the Klein government amended Alberta's Fiscal Responsibility Act to create a new "Sustainability Fund" that would alleviate the stop-and-go capital spending patterns of recent years.[120] Under the amendment, only the first $3.5 billion of resource revenues would be allowed to go into general revenues. The rest, if any, would be allocated to the new Sustainability Fund, which would be available to supplement any shortfalls if energy revenues did not reach $3.5 billion in a future year. The maximum balance of the Sustainability Fund was initially capped at $2.5 billion.

Unfortunately, no sooner was this new savings rule created than it was broken. As energy resource revenues soared, the Klein government repeatedly amended the act to allow for more than the original $3.5 billion to be allocated to general revenues.[121] At the same time, the "rules" governing what to do with resource revenues in excess of the $2.5 billion mandated for the Sustainability Fund were soft and vague. "Surplus funds" could be directed into additional savings, but they could also be directed into the capital account or into "balance sheet improvements," which turned out to mean just more program spending. Ed Stelmach succeeded Klein as premier in 2006, and by 2007 and 2008 virtually every resource dollar was being spent. Following the financial collapse of 2008, oil and gas revenues plunged and the Stelmach government began to draw down the Sustainability Fund to cover four successive annual deficits. This practice continued under Alison Redford, who replaced Stelmach as premier in 2011, until there was nothing left, and the Sustainability Fund was abolished in Redford's 2013 budget.

The Klein government's reforms of the Heritage Savings Trust Fund were more successful and more lasting. Courtesy of the economic misadventures of the 1980s, the fund had acquired the reputation of being a "slush fund" by the time Klein came to office. In 1996, the government introduced changes to manage the Heritage Fund as an endowment fund, implementing a new governance model as well as a series of investment objectives and performance measures.[122] The government also put an end to using the fund for economic-development and social-investment purposes, a routine practice under Lougheed and Getty. What is more, the government—after first eliminating the debt—returned to using the Heritage Fund as a savings vehicle, making the first deposit into the fund after a 19-year hiatus in 2006.

In 2004, the Klein government also began the process of reforming the province's system of investment management. Although passed by the Stelmach government, the Alberta Investment Management Corporation Act was very much the work of his predecessor's government,[123] which wanted to "politician proof" the administration of the Heritage Fund. The act created a new Crown corporation, the Alberta Investment Management Corporation (AIMCo), to manage the Heritage Fund, as well as the province's other public endowments, public-sector pension plans and other funds. Operating independently from the government, AIMCo has professionalized the management of the province's key assets. Its executive team has extensive investment, operation and risk-management experience, while the members of its board of directors must have "experience in investment management, finance, accounting or law or have served as an executive or director with a large, publicly traded company."[124] An indisputable success,

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[119] Canada. Alberta. Financial Management Committee, *Moving from Good to Great: Enhancing Alberta's Fiscal Framework*. (Edmonton, AB: 2002), 4.

[120] Canada. Alberta. *Budget 2003 Speech*, (Edmonton, AB: 2003), 4-5.

[121] In 2004, the limit was raised to $4 billion; in 2005, to $4.75 billion; and in 2006, to $5.3 billion.

[122] Canada. Alberta. Alberta Financial Investment and Planning Advisory Commission, *Preserving Prosperity: Challenging Alberta to Save* (Edmonton, AB: 2007), 21.

[123] Bruce White, "Wealth, Incorporated," *Alberta Venture*, December 1, 2008, http://albertaventure.com/2008/12/wealth-incorporated/.

[124] Canada. Alberta. Alberta Investment Management Corp., Annual Report 2013 (Edmonton, AB: 2013), 56.

AIMCo is one of the country's largest and most diversified institutional investment managers with more than $75 billion of assets under management.[125]

The Heritage Fund has long been cited as an example of what not to do with a resource-revenue fund. As of September 2014, the fund's value stood at $17.4 billion on a fair-value basis.[126] By way of comparison, Norway's fund, which was set up nearly a decade-and-a-half later, was worth approximately $900 billion at the beginning of 2014. If the $9.7 billion that sat in the Heritage Fund in 1982 had remained untouched (and no further contributions made) and had been allowed to grow simply at the rate of inflation, the value would have stood at $24.2 billion in 2010.[127] The problem, of course, is that the government, in addition to saving less than nine per cent of the province's natural resource revenues between 1977–2005,[128,129] repeatedly raided the fund over the years to finance a plethora of spending initiatives. Indeed, since 1976, approximately $36.5 billion has been transferred from the Heritage Fund into the province's general revenues to support program spending in such areas as health care and education (and debt reduction, under Klein).[130]

The fund's activist approach towards in-province investments under Lougheed and Getty has also been the subject of considerable criticism. Indeed, when setting up their respective energy-revenue savings funds, Alaska and Norway explicitly chose to avoid Alberta's path of favouring domestic investments. While in-state investments are allowed in Alaska, they can only be made if the risks and returns are deemed to be comparable to investment opportunities elsewhere.[131] In Norway's case, investments from the Government Pension Fund Global can only be made outside of the country so as to ensure "risk diversification and sound financial return."[132] Closer to home, neighbouring Saskatchewan, which is contemplating its own fund, is similarly dubious of the Lougheed/Getty model. In his 2013 report to the government of Saskatchewan, Peter MacKinnon—after observing that the Heritage Fund "was less successful than it might have been"[133] because of its convoluted purpose—recommended that investments "be made worldwide, including in the province of Saskatchewan, *provided that investments within the province are neither privileged nor preferred in whole or in part for that reason* [emphasis added]."

At its outset, of course, the Heritage Fund's in-province investment arm was intended to do just that—prefer and privilege investments in Alberta. Even without the province's lacklustre investment record, the case for doing so has never been particularly persuasive. In 2007, the Alberta Financial Investment and Planning Advisory Commission, chaired by Jack Mintz, recommended a "prudent investor" approach to Heritage Fund investment decisions, and explicitly argued against resurrecting the practice of using the fund to support economic diversification, maintaining that doing so would "jeopardize the

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125 AIMCo website, "At a Glance," http://www.aimco.alberta.ca/Who-We-Are/At-a-Glance.

126 Canada. Alberta. Alberta Treasury Board and Finance website, "Heritage Fund Information," http://www.finance.alberta.ca/business/ahstf/.

127 Herb Emery and Ron Kneebone, "Alberta's Problems of Plenty," *Policy Options* (May 2011): 11.

128 Roger Gibbins and Robert Roach, *Seizing Today and Tomorrow: An Investment Strategy for Alberta's Future* (Calgary: Canada West Foundation, 2006), 6-7.

129 In its 2007 final report, the Alberta Financial Investment and Planning Advisory Commission examined the province's recent savings history through a more forgiving lens. Taking the Klein government's aggressive debt-reduction payments into account, the commission argued that the province actually saved around 30.3 per cent of its non-renewable-resource revenues between 1993 and 2007.

130 Canada. Alberta. Alberta Treasury Board and Finance website, "Heritage Fund – Frequently Asked Questions," http://www.finance.alberta.ca/business/ahstf/faqs.html.

131 Peter MacKinnon, *A Futures Fund for Saskatchewan*, report to Premier Brad Wall on the Saskatchewan Heritage Initiative (Regina, Sask.: 2013), 4.

132 Norway. Norwegian Ministry of Finance, *The Government Pension Fund Global (GPFG)* (Oslo, Norway: 2011), 1.

133 MacKinnon, *A Futures*, 7.

return on Alberta's investments—investments that are badly needed now for provincial savings." Despite having appointed this commission, the Stelmach government ignored its recommendations.

More recently, Oxford economists Ton van den Bremer and Rick van der Ploeg have repeated this advice. Noting that the provincial government, private companies, and individual Albertans all have good access to international capital markets, their advice is blunt: "[I]nvestment projects should be decided on their own merits and one should avoid political favoritism, rent seeking and tying the hands of future generations who might have different priorities."[134] They add that, not only does such an investment fund carry the danger of inaccurate calculations of costs and benefits, it also holds the potential for political manipulation.[135]

In sum, the Klein government's reforms to the Heritage Fund—eschewing risky economic development projects in favour of maximizing long-term returns at an acceptable level of risk—are consistent with the best practices identified by van den Bremer, van der Ploeg, MacKinnon, and Mintz.[136]

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While the Klein government did not make "diversification" a declared objective of its fiscal policies, the approach it took corresponds closely with what has been described as the "shot-gun approach" to diversification.[137] Rather than focusing on a specific sector, the shot-gun approach embraces policies that enhance the competitiveness of the entire jurisdiction when it comes to attracting new companies and new investment. These policies include investments in transportation infrastructure, competitive utility rates, education and worker-training programs, support for research, and competitive tax rates. As noted above, the Klein government put particular emphasis on the latter, by adopting a single-rate, flat tax of 10 per cent for personal income tax—the lowest in Canada. It also reduced corporate income taxes from 15.5 per cent to 10 per cent[138] and kept the longstanding Alberta tradition of no sales tax.

The principal advantage of the shot-gun approach is that it "allows market forces to determine the direction of diversifying activities…[and] unlike the forced-growth approach, [it] does not require governments to select 'winners' from among the various types of development (something which they may be ill-equipped to do)."[139] It relies on market discipline to allow industries and/or companies that are not viable to fail, but supports all four forms of diversification: new industries, new markets, new product lines and more local upgrading of commodities.

The disadvantage of the shot-gun approach is that it does not directly mitigate the economic instability facing Alberta (and other petro-states). Most of the new private sector "eggs" will still be in the energy "basket," and so when oil and gas prices tank, so will both private- and public-sector revenues. For the government, these considerations also underline the importance of a "revenue stabilization fund" such as the Sustainability Fund created by the Klein government in 2003. The bottom line then is that "an effective diversification and development strategy would generally involve both approaches, as long as each is carefully focused and designed."[140]

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134 Ibid.

135 Tony van den Bremer and Rick van der Ploeg, *Digging Deep for the Heritage Fund*, University of Calgary School of Public Policy Research Paper 7, 32 (October 2014): 19.

136 The Alberta Financial Investment and Planning Advisory Commission was appointed by the Stelmach government in August 2007 to review the province's approach to savings. Chaired by Jack Mintz, the commission also recommended that the province set aside a fixed share of its total revenues in a savings fund, establish a target of saving $100 billion in net financial assets by 2030 in a renewed Heritage Fund, and limit use of the Sustainability Fund to dealing with unanticipated declines in revenues.

137 Mansell and Percy, *Strength in*, 119-122.

138 Canada. Alberta. Alberta Treasury Board and Finance, *Alberta Tax Advantage* (Edmonton, AB: 2006), 133.

139 Mansell and Percy, *Strength in*, 119-120.

140 Ibid., 122.

CONCLUSION

Writing in the mid-2000s, economic historian Herb Emery declared that the Klein years represented the end of the era of costly, government-led economic diversification. By the mid-1990s, oil and gas prices had recovered and private-sector investment was growing again. Public-sector investment, on the other hand, was not.

> Remarkably, despite the return of higher oil prices and high natural gas prices, public investment in Alberta collapsed to levels even below those that had prevailed at the time of Ernest Manning … Albertans rejected a return to province-building.[141]

Whether this new embrace of fiscal responsibility and laissez-faire deference to the private sector will endure, remains to be seen. Subsequent to Klein's departure in 2006, oil and gas again spiked to historic highs—as did government spending. When energy prices crashed in the wake of the 2008 financial crisis, so did revenues. In a scenario eerily similar to the Getty era, the new PC government of Ed Stelmach began to run "temporary" budget deficits. Now with six consecutive deficits and counting, the PCs have burned through over $16 billion in savings in the now defunct Sustainability Fund. Indeed, if we count overall decline in net financial assets, the loss is even greater: from $35 billion in 2008 to $13 billion in 2013.[142]

At the same time, the siren song of economic diversification are again finding a receptive ear in the PC government. The government is once again "sowing the oil" to drive diversification, this time with the multi-billion-dollar North West Redwater Partnership upgrader. Initiated by Stelmach and continued by his successor, Alison Redford, the construction costs were estimated at $4 billion and then $5.7 billion. The most recent estimate—in December 2013—is $8.5 billion, with the government of Alberta on the hook to cover all of this through a 30-year tolling agreement.

Just as Lougheed had done with *Proposals for an Industrial and Science Strategy for Albertans* a quarter-century earlier, Stelmach sought to start a conversation about the government's role in securing Alberta's economic future. Unlike Lougheed, who opted for a government-authored "white paper" (which the premier reportedly wrote large sections himself),[143] Stelmach chose to convene a blue-ribbon panel. The Premier's Council for Economic Strategy—which was chaired by David Emerson, a former federal industry minister—was charged with charting a course for Alberta's long-term prosperity, including ways of "broadening the economic base" of the province.[144] In the spring of 2011, the panel issued its report, *Shaping Alberta's Future*, which included calls for a Global Centre for Energy, a new institute to focus on commercially oriented research and a special investment fund, fed by provincial energy royalties, to lessen Alberta's reliance on oil and gas.

While Stelmach's successor did not explicitly endorse the report's recommendations, she was clearly influenced by its suggestion that "the Alberta government will need to decide where targeted public investments can enable and support private sector economic growth in high-potential areas for the province overall."[145] In that vein, the Redford government proposed to resurrect the practice of using money in the Heritage Fund for "strategic investments" in its 2014 budget. Bill 1, the seductively named Savings Management Act, would actually have created a new, $2-billion government-spending program to "provide government with the financial resources to take advantage of new opportunities, yet to be

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[141] Emery, "1986: The Bloom," 720.

[142] Al O'Brien, "An Independent Budget Office" (paper presented at the University of Calgary School of Public Policy Provincial Budgeting Roundtable in Edmonton, AB., October 28, 2014).

[143] Peter Cook, "Alberta pushes diversification its own way," *The Globe and Mail*, May 8, 1987, B3.

[144] Canada. Alberta. *Government of Alberta: Shaping Alberta's Future: Report of the Premier's Council for Economic Strategy* (Edmonton, AB: 2011), 106.

[145] Ibid., 47.

determined, that may require a large, one-time investment from the province."[146] Fortunately, one of the first decisions of Jim Prentice's "new" PC Government was to repeal Bill 1.

So the question is whether the PC government's new—or really, old—infatuation with the forced-growth approach to economic diversification is permanent or passing? As Alberta's fifth premier in the past nine years, Jim Prentice, takes the helm, there is an opportunity to reassess these policies. The Prentice government is off to a good start. Redford and Bill 1 are gone. But Edmonton is again abuzz with the seductive narrative that government-led diversification is the key to ending Alberta's boom-bust fiscal roller-coaster.

By our read of Alberta's record, the forced-growth approach is not the path to take. The Klein government's macroeconomic or "shot-gun" approach—making Alberta a tax-competitive jurisdiction that can attract both financial and human capital, combined with public investment in infrastructure—is clearly a lower-risk path to sustained prosperity.

[146] Canada. Alberta. "Putting Alberta's growing savings to work for our future," Government of Alberta press release, March 4, 2014, http://www.alberta.ca/release.cfm?xID=359728D5EF19F-D565-C959-7EFD9867C9BC38F7.

APPENDIX 1: A LEGACY OF LOSS

SELECT LIST OF FAILED DIVERSIFICATION INITIATIVES

Program/Project Name	Description	Outcome
Alberta Pacific Terminals	In 1988–89, the Getty government forwarded a $12-million loan package to Alberta Pacific Terminals, a grain-handling facility in Vancouver.	In 1991, the company went into court-ordered protection from its creditors. A Hong Kong businessman later bought the firm's subsidiary, Fraser Surrey Docks Ltd., in a deal that saw the Alberta government recoup a mere $2 million of its $12-million loan.[1]
Alberta Terminals	As part of its effort to enhance market access for Alberta growers, the Lougheed government purchased and upgraded three federal grain terminals in Edmonton, Lethbridge, and Calgary.[2] It created Alberta Terminals Ltd. to handle the province's grain-storage operations.	In 1991, the provincial government sold Alberta Terminals Ltd., which included not only the three terminals, but also a trackside loading facility in High Level, for $6 million.[3] The government admitted to a $2.6-million loss on the sale.[4]
Alberta White Wood Industries and Meunier Forest Products	In April 1989, the Getty government guaranteed a $2.3-million loan for the company that owned Alberta White Wood Industries in Fort Assiniboine and Meunier Forest Products in Barrhead.[5]	In February 1990, the two sawmills were closed as a result of "banking difficulties," leaving the province on the hook for the loan.
Alert Disaster Control	Alert Disaster Control was involved in a joint venture with the Southern Alberta Institute of Technology (SAIT) to build an offshore facility to train oil workers stationed in Southeast Asia. SAIT ran afoul its own board of governors, which demanded the administration suspend operations in the Batam International Training Centre, after sinking $4.7 million into the still-uncompleted project.[6]	Alert Disaster Control convinced the government that recovering the centre's central component, a barge called the Alert 1-Sri Kresna, represented the best change to recoup its investment (a move, obviously, that would forestall any chance of the training facility growing into a successful operation). In what surely must stand as an unprecedented act of international intrigue for a provincial government, Edmonton gave the go-ahead for the vessel to be towed into "friendlier" waters under the cover of darkness.[7] A separate company owned by none other than Michael Allcorn, the man behind Alert Disaster Control, bought the barge for about $1.85 million, an amount far less than the $4.45 million the province had sunk into the project in the form of a loan guarantee.[8]
Canadian Professional Munitions	Canadian Professional Munitions was an ammunition manufacturer based in the small southern Alberta community of Raymond.	In March 1991, the company went under, still owing $803,000 on a loan the government had guaranteed.[9]
Carbovan	Based in Fort McMurray, Carbovan was the only Canadian producer of vanadium, a metal compound that hardens steel.	Citing losses from low world prices, the company suspended its operations in July 1991[10] with $5.9 million outstanding on a $6-million Alberta Opportunity Co. loan.[11]
Climate Master	Climate Master was an Edmonton-based manufacturer of heating and air-conditioning systems.	In October 1990, the company went into receivership owing secured creditors more than $8.4 million, $5 million of which had been guaranteed by the provincial government.[12]
Dial-Guard	An Edmonton-based manufacturer of computer security devices.	After defaulting on a $2.5-million debenture in January 1991,[13] the company went into receivership. The company had received a $400,000 loan from the province in 1987, and as well as a $1.6-million loan from the Alberta Opportunity Company the following year.[14] The ultimate cost to the province was a little more than $600,000.
Emery Apparel Canada	A company specializing in fire-retardant clothing geared towards the oilpatch.	Emery Apparel received a $900,000 export-loan guarantee from the provincial government and a $1.25-million investment from Vencap,[15] before entering into court-ordered receivership in May 1991.

Fletcher's Fine Foods	In the late 1980s, the Getty government guaranteed a $20-million loan for Fletcher's Fine Foods to expand its presence in the U.S. market. Fletcher's, in turn, provided a loan guarantee to the American company, Golden Gate Fresh Foods.	When Golden Gate Fresh Foods collapsed, the province was on the hook for the $13.9-million loan.[16]
General Composites Canada	General Composites Canada manufactured pipe for the oil and mining industries.	In 1989, the company went into receivership with an approximately $3.5-million government guarantee in tow.[17] The NDP opposition presented documents in the legislature indicating the government had guaranteed the loan even though it knew the company was in financial trouble. Unrepentant, Economic Development Minister Peter Elzinga jumped to his department's defence, arguing "there are failures. But that's not to say that we're going to be timid."[18]
Myrias Research Corp.	Myrias Research Corporation was Canada's only "supercomputer" manufacturer.	Despite receiving $30 million in funding from the provincial, federal and U.S. governments, the company went under in the fall of 1990.[19] At the time, Myrias still owed $7.5 million on a government loan (the province also had $1.5-million worth of preferred shares in the company).[20]
Nanton Spring Water	A bottled-water company based in the small southern Alberta community.	The aptly named company shut its doors in mid-January 1990, offering neither notice nor an explanation. Not only was the government on the hook for a $2-million loan guarantee, it was also forced to write down $800,000 in preferred shares.[21]
Norstar Recreation Products	A Calgary-based manufacturer of helmets.	The company went bankrupt in July 1990 after receiving a $1-million loan guarantee from the province.[22]
Northern Steel	In June 1989, the Getty government silently took a controlling interest in Northern Steel, the largest steel-fabricating firm in the province. The deal was not announced at the time, and, indeed, was not made public until 18 months later. As an *Edmonton Journal* editorial indignantly noted, "Another government might have seen fit to disclose this bit of information at the time, but not the Getty government. After arranging a bailout worth more than $5 million—part of a confusing array of public loans, guarantees, and indemnities to the company—the government simply and amazingly kept the news of the takeover to itself."[23] Economic Development Minister Peter Elzinga argued that while it was not announced, neither was it hidden. "It was just a matter of course."[24]	Two and a half years later, the bank called its share of a government-backed loan for $13.5 million. Refusing to guarantee more debt, Elzinga announced that the government was pulling the plug.[25] The eventual hit taken by the government was $11 million.[26]
Peace River Fertilizer	In February 1987, the provincial cabinet approved the $6-million loan guarantee to Peace River Fertilizer on the recommendation of then economic development minister, Larry Shaben, who also happened to be the local MLA.[27]	In the spring of 1991, Provincial Treasurer Dick Johnston confirmed the government was in the process of securing assets from the company, which had closed its doors two years earlier owing to financial troubles. The bank was calling in the loan the government had backed.[28]
Ski Free Marine	Ski Free Marine manufactured an automatic, self-propelled tow machine for water skiers.	The company failed in 1989, shortly after it received a $2.8-million loan guaranteed from the government.[29] The company's failure perhaps was not surprising as its product was illegal under Canadian law (at least one person must monitor the skier).[30]

Teknica Resource Development	The company had developed a computer program that transformed seismic data into accurate, coloured pictures of underground formations.[31]	The government injected $1.5 million into Teknica Resource Development in exchange for preferred shares in 1986. In 1989, the erstwhile "bright spot in the local geophysical sector" fell victim to the downturn in the oil industry, and was put into receivership.[32] The company had also received a government-guaranteed loan of $400,000.[33]
Tomotechnology	In 1987, the Getty government invested $625,000 in Tomotechnology to develop tomography, a process using imaging software and X-rays to interpret physical and chemical properties of core samples, for the oil, gas, and mining industries. The province also guaranteed a loan for the company.[34]	In less than four years, Tomotechnology was yet another entry in the Tories' loser list, forcing the government to write off a $257,000 loss under guarantee and $800,000 of shares.[35]

1. "Alberta to lose $10 million on West Coast terminal loan," *Vancouver Sun*, December 19, 1991, D4.
2. "Alberta Grain," *The Globe and Mail*, October 13, 1979, B6.
3. "Grain terminals sold," *The Globe and Mail*, January 23, 1991, B4.
4. Duncan Thorne, "Gov't admits $2.6M loss in deal; Alberta Terminals Ltd. sale," *Edmonton Journal*, March 20, 1991, D8.
5. Karen Sherlock, "Banking difficulties close 2 mills; Barrhead-area firms received $2.3M provincial loan guarantee," *Edmonton Journal*, February 11, 1990, A5.
6. Anthony Johnson, "SAIT cuts Indonesian cash flow," *Calgary Herald*, May 3, 1990, B1.
7. Anthony Johnson, "Province scuttles SAIT scheme," *Calgary Herald*, July 7, 1991, A1.
8. Anthony Johnson, "Province lost big bucks on SAIT barge," *Calgary Herald*, January 20, 1993, B1.
9. "More of the same old thing? The Liberals pillory Klein for a spate of newly disclosed loans to business," *Western Report,* October 25, 1993, 19.
10. Duncan Thorne, "Carbovan repaying gov't loan," *Edmonton Journal*, January 28, 1992, D8.
11. "Money-losing ventures," *Calgary Herald*, May 23, 1992, A12.
12. Joan Crockatt, "City will lose $40,000 in Climate Master flop," *Edmonton Journal*, December 18, 1990, D7.
13. Jac MacDonald, "Manufacturer goes broke, despite $3M in gov't aid," *Edmonton Journal*, April 27, 1991, D3.
14. Ibid.
15. Joan Crockatt, "Taxpayers have interest in over 70 ventures; Minister's briefing book discloses 179 other firms backed by export loan guarantees," *Edmonton Journal*, May 6, 1991, A7.
16. "More Tory bad business," *Edmonton Journal*, September 21, 1992, A8.
17. "Money-losing," *Calgary Herald*.
18. "Failed pipe maker had $3M gov't guarantee – NDP," *Edmonton Journal*, April 13, 1991, A8.
19. Duncan Thorne, "Myrias folds, leaving trail of bad debts; Eighty employees lose jobs," *Edmonton Journal*, October 27, 1990, D1.
20. Ashley Geddes, "Taxpayers lose on sale of assisted firm," *Calgary Herald*, June 6, 1991, D2.
21. "Money-losing," *Calgary Herald*.
22. Roy Cook, "Sound business plan not enough to keep some firms operating," *Edmonton Journal*, April 27, 1991, G7.
23. "Late-breaking news," *Edmonton Journal*, December 17, 1990, A8.
24. Ibid.
25. "Alberta pulls plug on steel firm," *The Globe and Mail*, October 12, 1991, B3.
26. Sherri Aikenhead, "Debt, economic blunders among issues shaping up battle," *Edmonton Journal*, May 19, 1993, A5.
27. Richard Helm, "Potential buyers found for failed fertilizer plant; $6M loan may not be repaid," *Edmonton Journal*, April 17, 1991, A7.
28. Ashley Geddes, "Fertilizer plant added to debacle list," *Calgary Herald*, April 17, 1991, A2.
29. "Money-losing," *Calgary Herald*.
30. "Struggling with the Getty Legacy," *The Globe and Mail*, October 26, 1992, A20.
31. Nelson, "Alberta's Expensive."
32. Henry Cybulski, "Teknica victim of oilpatch slump," *Calgary Herald*, July 19, 1989, E1.
33. Joan Crockatt, "Lending to Losers; Gov't defends its economic battle plan," *Edmonton Journal*, April 20, 1991 G1.
34. "Alberta aids Tomotechnology," *The Globe and Mail*, September 30, 1987, B17.
35. Crockatt, "Lending to."

APPENDIX 2: DIVERSIFICATION PROGRAMS AND PROJECTS TERMINATED BY THE KLEIN GOVERNMENT

Program/Project Name	Description	Date Terminated
Alberta Agricultural Development Corporation (ADC)	A Crown corporation created to provide credit to those in the agricultural industry unable to borrow from other sources.	The ADC operated until 1993, formally disappearing in March 1994 when the Agriculture Financial Services Act repealed the Agricultural Development Act.
Alberta Opportunity Company (AOC)	AOC provided financial and management assistance to small and medium-sized Alberta businesses that were unable to obtain similar assistance from the private sector.	AOC continued to operate until early 2002, at which point it was merged with the Agriculture Financial Services Corp.[1]
Irrigation Rehabilitation and Expansion	A project to increase Alberta's capacity for agricultural production by providing financial assistance to the 13 irrigation districts to plan, rehabilitate and expand their water distribution networks.	Discontinued in 1995.
Alberta Reforestation Nursery	The construction and operation of a nursery near Smoky Lake to expand the province's capacity to produce seedlings in support of reforestation.	Privatized in 1997.
Farming for the Future	A program administered by the Agriculture Research Council of Alberta to promote agriculture research in areas such as forage crops, land use and soils, processing, and marketing.	Discontinued in 1995.
Vencap Equities Alberta Ltd.	Seeded with a $200-million loan from the Capital Projects Division of the Heritage Fund, this venture capital company invested $270 million into 79 companies, mostly in Alberta, in manufacturing, technology, consumer products and retailing between 1983 and 1995.[2]	Privatized in 1995.
Electronics Test Centre	Built to support the province's electronics industry in the mid-1980s, the Electronics Test Centre tested and certified products, as well as provided manufacturers with product evaluation and technical support.	Privatized in 1994.
Microchip Design and Fabrication Facilities	Based out of the University of Alberta and University of Calgary, the purpose of the facility, which was established in 1985, was to provide research and development support to the microelectrics industry.	Fully privatized in 1998 following a seven-year transition period.
Swan Hills Waste Treatment Plant	An unsuccessful joint venture, initiated by the Getty government, between the province and a private company, Bovar Inc., to process hazardous waste	In 1995, the Klein government chose to bail out of the project at a cost of $147.5 million (the money was transferred to numbered company, which extricated the province from the agreement with Bovar by paying off obligations to the company).
Magnesium Company of Canada (MagCan)	A magnesium smelter built in High River, which the Getty government supported with a $103-million loan guarantee. MagCan later walked away from the facility.	In 1995, the Klein government sold the plant to Alberta Natural Gas Co. Ltd. for less than $5 million.
Northern Lite Canola	A government-backed canola co-operative created to improve market access for producers in northern Alberta.	In 1996, the Klein government sold the operation to Canola Industries Canada.

1. *Historica Canada*, "Alberta Energy Company Limited," http://www.thecanadianencyclopedia.com/en/article/alberta-energy-company-ltd/.
2. Brent Jang, "Politics cloud Vencap privatization: Inside Alberta," *The Globe and Mail*, July 11, 1995, B4.

APPENDIX 3: RESEARCH AND DEVELOPMENT DIVERSIFICATION INITIATIVES

The Alberta Oil Sands Technology and Research Authority (AOSTRA)

Established in 1974 with "the object of developing systems for economically recovering oil from Alberta's oil sands and heavy oil reservoirs to replace diminishing supplies of conventional oil,"[147] AOSTRA operated primarily through cost-shared pilot projects with industry. Over its 18-year history, it spent the equivalent of $1 billion (in 2006 dollars) on public-private projects and institutional research.[148] AOSTRA's partnerships with industry resulted in the development of a number of other technologies that, in the words of the *Petroleum Economist,* "are fuelling the next generation of oil-sands development to this day," including in situ combustion.[149] AOSTRA was merged into the Oil Sands and Research Division of the Ministry of Energy in 1994,[150] with much of its work either privatized or sold.

Alberta Heritage Foundation for Medical Research Endowment Fund (AHFMR)

AHFMR was established in fiscal 1979–80 with an investment of $300 million from the Capital Projects Division of the Heritage Fund. In addition to supporting medical research, the foundation also funded a technological commercialization program to translate medical research into commercial ventures. According to one government estimate, the market value of the foundation's investments was $682 million at the end of fiscal 1995.[151] The Klein government added $500 million to the foundation's endowment in 2005.[152]

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147 Canada. Alberta. Alberta Treasury, *Alberta Heritage Savings Trust First Annual Report/1976-77*, 20.

148 Leah Lawrence, "If Canada is to ever have a national energy strategy, visionaries are needed to make it happen," *Oilweek,* August 2012, 47.

149 "In situ: the next generation?" *Petroleum Economist*, July/August 2013, 5.

150 *Historica Canada*, "Alberta Oil Sands Technology and Research Authority," http://www.thecanadianencyclopedia.com/en/article/alberta-oil-sands-technology-and-research-authority/.

151 Alberta Treasury, *Alberta Heritage Savings Trust Fund Annual Report 1994-95*, 31.

152 Melanie Collison, "Advances result of 25 years of excellence," *Edmonton Journal*, March 9, 2005, E3.

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ISSN
1919-112x SPP Research Papers (Print)
1919-1138 SPP Research Papers (Online)

DATE OF ISSUE
March 2015

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