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PUBLIC ENTERPRISE AND PUBLIC INTEREST:

THE CASE OF BRITISH COLUMBIA

by

Alma Lucille Smordal

B.A. (Hons.), Simon Fraser University, 1976

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF

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of

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ABSTRACT

Governments in many countries in the world have accepted public ownership as one means of carrying out their social, economic, and cultural goals and objectives. In Canada there has been an expansion of the public sector both at the national and provincial level. This thesis focuses on public enterprises in British Columbia through an examination of two crown corporations: British Columbia Hydro and Power Authority and Insurance Corporation of British Columbia, and one shared enterprise: British Columbia Resources Investment Corporation. The examination of these particular case studies provides an insight into the operation of some of British Columbia's public enterprises, especially the commercial types of ventures.

The main purpose of this thesis is to examine why these three public enterprises were established, how they were structured in order to carry out the purpose for which they were established, and an assessment of the clientele interest that was served by each public enterprise in order to analyze the manner in which these public enterprises served the public interest. Therefore, the three case studies are examined in regard to these three main issues concerning the public enterprise: (1) the rationale behind its formation, (2) its structure and operation, and (3) the clientele interest it serves. An analysis of the three issues reveals the similarities, differences, and contrasts among these enterprises.

It is concluded that: (1) Governments may provide different rationale for the creation of public enterprises, (2) the structure of the public enterprise is an important factor in determining how the public interest is to be served, and (3) the crown corporations studied serve a larger clientele interest than does the shared enterprise. Generally speaking, public enterprise in British Columbia is actively used as an instrument of government policy. Secondly, the form of ownership adopted by each government depends upon the respective government's interpretation of the public interest and how its interpretation of this interest can be served.

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CHAPTER I

INTRODUCTION

Intervention by government in the private economic sector can have a considerable effect on the social and economic life of a country. While state intervention can take many forms, the use of the public enterprise as an instrument of government intervention in the economy will be the focus of discussion in this thesis. The purpose of this chapter is to set out the context, definition of terms, and the framework to be used in the thesis for the examination of three public enterprises in British Columbia.

The concept of the nineteenth century that the interests of society are best served by the state if it intervenes as little as possible with the life of the people has lost its meaning and its support. J.M. Clark states that "absolute laissez-faire of free enterprise is a myth; the nearest approach to it involves a good deal of control."¹ In addition, Rea says that "... it is now clear that completely laissez-faire arrangements do not exist and never have existed in Canada or any other Western nation."²

Instead of the state being a passive observer of the economic process, it has emerged as an active participant. Today there is hardly any sphere of economic activity which is not in some way or other controlled and regulated by the state. To some extent, governments in all countries are involved in the establishment and management of enterprises.³

The term "mixed economy" is used to identify the co-existence of publicly owned and privately owned enterprise and the fact that private enterprise generally must operate within certain constraints imposed by public authority.⁴

In Canada, the United States, Great Britain, and the countries of Western Europe, the term "mixed economy" is commonly applied to describe these countries' economic structure.⁵

An explanation for the establishment of public enterprises by government is offered by J.H. Perry when he states:

It has been pointed out by nearly all writers that government enterprise is found where for some reason private enterprise is found wanting. The usual condition where this occurs is the existence of some public need having commercial characteristics which private enterprise is unwilling to fill, should not be expected to fill or is unsuitable to fill.⁶

Thus, there is the question of a government's role in the economic sphere. In certain instances, the government is faced with the decision of entrusting the private sector with the responsibility of accomplishing certain goals or using instruments of the state to achieve them.

The earliest contemporary public enterprises were created at the end of the nineteenth century in Europe.⁷ In Canada, the first recorded use of public enterprise for the achievement of government objectives was the creation in 1841 of the Board of Works to construct a canal system in the United Provinces of Canada.⁸ Since that time, the expansion of the public sector at both the provincial and national level has resulted in government ownership of a wide variety of enterprises which affect every resident in one way or another. In

the provinces of Canada, as at the national level, there are now many public corporations, known as crown corporations and shared enterprises, which serve a wide variety of purposes including resource development and the provision of social benefits and services.

The use of the corporate form of organization rather than the departmental form of organization is generally rationalized on the basis of the advantages to be gained from independence from government control, flexible administration procedures, and special expertise.⁹ These are features adopted from the private sector corporation which seem to contribute to its success.

Lord Morrison of Lambeth elaborates on the reasons for a government to establish a public corporation:

If we establish the public corporation, it must be for certain reasons. What are they? They are that we seek to combine the principle of public accountability, of a consciousness on the part of the undertaking that it is working for the nation and not for sectoral interests, with the liveliness initiative, and a considerable degree of freedom of a quick moving and progressive business enterprise. Either that is the case for the public corporation, or there is no case at all.¹⁰

The corporate form, when applied to the public sector, however, creates problems which do not exist for private sector corporations. For instance, conflict may arise between the need for managerial autonomy and freedom from politics for the public corporation on the one hand and the requirement that it respond to the government's policies on the other hand. Therefore, the rationale for the formation of the public corporation together with its structure and

government policies are all significant factors concerning the public enterprise.

In Canada, the basic structure of the provincial public corporation closely parallels that of its federal counterpart. Since there is considerably more literature available on the federal corporations, this paper will refer to this literature in order to define certain types of public enterprise.

I Definition of a Public Enterprise

Basically, a public enterprise is either wholly or partially owned by a government. For the purpose of this thesis, the term public enterprise will be applied to two types of public corporations: the Crown Corporation and the Shared Enterprise. The following discussion will set out the definition of these types of public enterprise.

A. Crown Corporation

In Canada, a crown corporation is an institution with corporate form brought into existence by the actions of the federal government. They are operated under government auspices with varying degrees of freedom from government to serve a public function.¹¹

In a discussion of the reasons for the use of the crown corporation form, Don Gracey states:

The basic raison d'etre of the federal crown corporation form has been to separate the management of an activity from continuous partisan intervention and day-to-day government or parliamentary scrutiny and debate. Successive governments have refrained from appointing ministers or members of Parliament as directors of crown corporations lest violence be done to this principle.¹²

Even though crown corporations are largely independent of parliamentary control and scrutiny, they are, nevertheless, instruments of government, and crown corporations with share structure, for instance, have as the trustee shareholder a government minister designated by the Governor-in-Council as the appropriate minister for purposes of that corporation. "In other Crown corporations, the constituent act or the Governor-in-Council designates a certain minister as the 'appropriate minister'."¹³ While the full meaning of the term "appropriate minister" is unclear, this person acts as the reporting link to Parliament for the crown corporation.¹⁴

The board of directors of crown corporations are appointed by the cabinet. Although public servants are often appointed to the boards, cabinet ministers are not appointed to the board of directors of federal crown corporations. In the case of the corporations that operate on a profit basis, the boards are usually composed of individuals from the private sector appointed by cabinet.¹⁵ The Crown is not subject to taxation, nor are its agents, unless the immunity is removed by statute. This holds true of federal, provincial, and municipal taxes.¹⁶

Most of the federal crown corporations depend upon the Government of Canada for appropriations or loans to finance capital projects and/or operations. Crown corporations also have varying degrees of authority to borrow on the open market. Unless the constituent act provides otherwise, crown corporations that borrow with a government guarantee, or as an

agent of Her Majesty, require Parliament's approval, and the borrowings become a contingent liability against the Consolidated Revenue Fund.¹⁷ The federal Parliament has, through statutes such as the Financial Administration Act (FAA), maintained some broad supervisory responsibilities with respect to crown corporations by means of such instruments as annual reports and capital budgets. The manner in which many of the Crown's prerogatives with respect to crown corporations may be exercised has also been set out in legislation.¹⁸

In general, the term "crown corporation" as defined at the federal level has been used to cover a broad range of government agencies. Section 66 of the Financial Administration Act defines a crown corporation as "a corporation that is ultimately accountable through a minister to Parliament for the conduct of its affairs and includes the corporations named in Schedule B, Schedule C, and Schedule D (of this Act)."¹⁹

Until recently the only useful guide to the categorization of Crown agencies was to be found in the schedules of the Financial Administration Act and in the Authorities Manual issued by the Treasury Board Secretariat. In the Financial Administration Act, government departments are listed under Schedule A. Schedules B, C, and D list 54 Crown corporations which are divided into three categories:

"Departmental", "Agency", and "Proprietary".²⁰ An additional

43 "Branches Designated as Departments" for the purpose of the Act are listed in the Authorities Manual.²¹

In response to the Auditor General's criticism that there seemed to be no central agency taking responsibility for keeping a complete list of Crown agencies, in May 1977, the Treasury Board Secretariat published a list of what it described as "Government-owned and Controlled Corporations." The total number of crown agencies in this list was shown as 407,²² which includes agencies with a variety of different mandates, structures, and tasks. This list expanded on the FAA classification; however, the Royal Commission on Financial Management and Accountability (Lambert Commission) stated that neither the schedules of the Financial Administration Act nor the Treasury Board Secretariat list were adequate in "clarifying the lines of accountability and the nature of the relationship to be established between Parliament and the Government on the one hand and each of these Crown agencies on the other."²³

The Lambert Commission recommended that the schedules to the FAA be replaced by a more comprehensive schedule which encompasses four categories: (1) Ministerial and Other Designated Departments, (2) Independent Deciding and Advisory Bodies, (3) Crown Corporations, and (4) Shared Enterprises.²⁴

The following criteria were proposed by the Lambert Commission to determine the category of "Crown Corporation":

- (a) Established by constituent act, letters patent/ articles of incorporation under Canada Business Corporations Act or provincial acts.

- (b) Tasks akin to private sector entrepreneurial undertakings in a market setting.
- (c) Wholly-owned by government.
- (d) Board collectively is assigned care and management of the corporation as in the private sector.
- (e) Separate employer, outside Public Service Employment Act.
- (f) Minister may give direction.²⁵

By adopting the criteria proposed by the Lambert Commission to determine the category "Crown Corporation", the definition of a crown corporation used in this paper applies to a corporation that is wholly owned and controlled by the Government of Canada or a province and operates as a commercial venture much in the same manner as a corporation in the private sector. Both British Columbia Hydro and Power Authority and the Insurance Corporation of British Columbia fit this definition.

B Shared Enterprise

In Canada, shared enterprises are joint ventures in which the government has taken a direct equity position together with other investors. They have a number of forms which are dependent upon the degree of government ownership and the identity of the other investors. One form includes the government purchase of equity in a private sector firm. A second form is one in which the government provides part of the initial capital. A third shared enterprise approach has been used to introduce private sector involvement into areas in which the government is the initial participant. Telesat Canada is an example of this form. The holding

company is another form of government participation in private sector enterprises. At the federal level, the Canada Development Corporation is an example of a holding company.²⁶

The Lambert Commission said that "Shared Enterprises are instruments of public policy, but in a more limited sense than wholly-owned Crown corporations."²⁷ Shared enterprises are not mentioned in the federal Financial Administration Act. "The ties between these types of agencies and the Government and Parliament were then, and continue to be, subject to the idiosyncratic provisions of the individual constituent act (which now include the Acts of the Canada Development Corporation and Telesat Canada) or to variations in federal or provincial corporate law."²⁸ There is no comprehensive approach to the management and accountability of shared enterprises.²⁹ The Lambert Commission gives the following as the criteria for shared enterprises:

- (a) Established by constituent act or letter patent/articles of incorporation.
- (b) Government has taken a direct equity position in common with other participants.
- (c) Board collectively has care and management as in the private sector.
- (d) Minister does not have authority to direct but is entitled to shareholder information.³⁰

Based on the above criteria, this paper defines a "Shared Enterprise" as a corporation in which a government has a direct equity position in common with other investors.³¹ This definition is applicable to British Columbia Resources Investment Corporation.

In discussions of public policy, political action, social value, and individual interest, the concept "public interest" plays a central role. The following discusses various interpretations of the meaning of this concept.

II Definition of Public Interest

Some authors contend that the concept "public interest" cannot have a serious meaning. For example, Dahl and Lindblom have stated that the public interest is usually left totally undefined, and it can rarely be read to mean the preferences of the greater number. "Often enough", they say, "a precise examination would show that it can mean nothing more than whatever happens to be the speaker's own view as to a desirable public policy."³² Schubert argues that since the concept "make no operational sense, notwithstanding the efforts of a generation of capable scholars, then political scientists might better spend their time nurturing concepts that offer greater promise of becoming useful tools in the scientific study of political responsibility."³³

On the other hand, Daniel Bell and Irving Kristol express their view of the importance of the concept, and they say " ... we do believe that the term, or one of its synonyms, is not to be escaped from.... there never has been a society which was not, in some say, and to some extent, guided by this ideal... no matter how perverse its application, in our eyes."³⁴

The importance of the concept "public interest" is stressed by Leys; however, he concedes that:

Intelligent human beings will not find themselves 'of one mind' regarding 'the public interest' in some policy proposals. But this predicament does not justify some of the recent philosophical contentions that a wise man will not try to define what he means by 'the public interest' and that policy discussions are rendered more confused and futile by sharply defined general standards.³⁵

Leys and Perry state that "the 'public interest' can have several radically different meanings.... due process of law, majority rules, etc."³⁶

While the concept of "public interest" is difficult to define; nevertheless, its importance to public policy cannot be avoided. As R. Flathman states:

... public interest is a general commendatory concept used in selecting and justifying public policy. It has no general, unchanging descriptive meaning applicable to all policy decisions, but a non-arbitrary descriptive meaning can be determined for it in particular cases. This descriptive meaning is properly found through reasoned discourse which attempts to relate the anticipated effects of a policy to community values and to test that relation by formal principles. We also conclude that the concept is neither a vacuous phrase nor a verbal devise useful only for propaganda purposes. It performs a function in political discourse, and it has a logic which, if taken seriously, will influence the kind of policies adopted and rejected and the character of the political process used to adopt and reject those policies.³⁷

A lack of consensus on the meaning of "public interest" leads to varying interpretations of the term. For instance, the public interest as perceived by the government, the corporation, the opposition parties, the media, and the individual may differ. Private rather than public enterprise, for example, might be seen by certain segments of the

population as a more efficient and equitable manner in which to serve the public interest. On the other hand, the argument may be reversed whereby the public enterprise might be seen as more desirable than private enterprise in specific instances. The choice reflects a value judgment. In this thesis, three aspects of the "public interest" as a measure for evaluating public enterprise are considered. In the first instance, the public interest defined by the government as the rationale for creating enterprises is examined. Secondly, the public interest is discussed relative to the accountability of the corporation to the legislature and to the people of British Columbia in terms of the manner in which the corporation is structured and operated. Thirdly, from the perspective of the writer, the concept "public interest" is applicable to the services or benefits derived from the formation of the public corporation with respect to the number of people that are served; that is, the clientele interest that is served. In this instance, public interest is synonymous with majority interest as opposed to individual interests or specific group interests.

The concepts of public enterprise and public interest also relate to a government's perception of the role of the state and the use of state intervention. This leads to the question of a government's philosophy on public ownership.

III Government's Philosophy on Public Enterprise

Pragmatism rather than party philosophy seems to provide the basic approach to public ownership as far as the two

major political parties in Canada is concerned. The pragmatic approach to public ownership by both the Liberal and the Progressive Conservative Parties, the only two parties to form the Government of Canada, can be explained in part because these parties do not have a doctrinaire approach for or against public ownership. The political party that has favored the use of public corporations for the conduct of the business of key industries and services is the New Democratic Party and its predecessor, the Co-operative Commonwealth Federation. Liberal governments have created most of the federal crown corporations; however, the Progressive Conservative governments passed the original legislation for four of the most important crown corporations.³⁸

While both Liberal and Progressive Conservative governments have argued the merits of public ownership when they wished to establish a certain public corporation, when each of these parties has formed the official opposition, it has argued against the establishment of public corporations in favor of private enterprise.³⁹ However, Lamontagne says that in Canada "the recognition of the complementary relationship between private initiative and government action has been the dominant feature of our political history since 1867, and there is no evidence at present to show that this long-established tradition will be broken."⁴⁰ All political parties in Canada, according to Hogan, believe in some form of mixed economy.⁴¹

In contrast to the federal level, neither the Progressive Conservative Party nor the Liberal Party has formed the government of British Columbia nor has either been the official opposition in the past twenty-eight years. In fact, in the last provincial election not one Liberal or one Progressive Conservative won a seat in the Legislature.

The philosophies of the two main political parties in British Columbia provide differences on the question of public ownership from that of the federal level. Currently, the two main political parties in British Columbia are the Social Credit Party and the New Democratic Party. The Social Credit Party bases its political platform on support for "free enterprise" while the New Democratic Party has favored the use of public ownership for the management and administration of some key industries and services.

Even though the Social Credit Party is commonly referred to as a "free enterprise" party and the New Democratic Party is referred to as a "socialist" party, neither party when it formed the government changed the basic economic structure of the province. In spite of the fact that the Social Credit Party proclaims itself as a "free enterprise" party, during the 1952-1972 period when it formed the government, it established some of the largest public corporations in the province of British Columbia. When the New Democratic Party formed the government in the 1972-1975 period, it established a number of public corporations on a selective

basis. Conversely, when the Social Credit Party formed the government in 1975, it dismantled a number of public corporations on a selective basis. Like the two main federal parties, both the Social Credit Party and the New Democratic Party accept the present economic structure which is based on a mixed economy.

It seems that the philosophical differences between the two main political parties in British Columbia on the question of the form of ownership - private or public - to use in order to carry out the objectives of the government is one of degree; that is, basically, both of the political parties follow a pragmatic approach towards the question of public versus private enterprise. While the basic philosophies of the two major political parties on the policy of public ownership appear to be quite different, their approach seems to depend upon each party's interpretation of the better way in which to serve the public interest and at the same time form the government.

The Framework for Analysis

Within this context, the three case studies of public corporations in British Columbia will include: British Columbia Hydro and Power Authority (B.C. Hydro), the Insurance Corporation of British Columbia (ICBC), and British Columbia Resources Investment Corporation (BCRIC). These corporations were selected on the following bases: (1) each corporation was established by a different premier and Government of the

province of British Columbia and (2) each corporation is engaged in its own distinct type of business operation. In this way it is hoped that the scope of this study would encompass some of the main features of public corporations in British Columbia and their interrelationship with government and the public in an attempt to determine in what manner the public interest is served.

Three issues in particular are examined. The first issue is concerned with the rationale behind the formation of the public corporation. The second issue focuses on the structure and operation of the public corporation, which concerns the mandate, terms of accountability and financing that are defined by the corporation's governing statute and orders-in-council to determine some of the corporation's powers and to what extent these powers are, or can be, controlled for the public interest. The third issue assesses a number of factors relevant to the manner in which the public interest is served and an evaluation of the clientele interest that is served by the respective corporation. These issues are all interrelated to the public corporation's role as a policy instrument of government.

These purposes can be accomplished by focusing on a number of basic questions:

1. (a) what rationale have governments provided for the establishment of the public corporation?

-
- (b) what are some of the factors which have influenced

the establishment and operations of public corporations?

- (c) to what extent have these public corporations been used as instruments of province building?
2. (a) what is the role of the cabinet minister in respect to the public corporation?
- (b) in what way are public corporations held accountable to the public?
 - (c) what is a major argument used both for and against the use of provincial guarantees for borrowing purposes by a public corporation?
 - (d) what clientele interests are served by the public corporation?

The following chapter examines one of the largest crown corporations in British Columbia, British Columbia Hydro and Power Authority.

Data Sources

There has been very little written in journal articles or books on the crown corporations in British Columbia. The primary sources of data are the statutes, orders-in-council, the financial reports of the corporation, written communication, reports or speeches made by the directors or other executives of the corporation, debates in the legislature, newspaper articles, press releases from government officials, and other government documents.

Interviews have been conducted which cover a wide spectrum - the public corporation's employees, agents for the corporation, and employees of one standing committee of the legislature. Telephone conversations have been conducted with members of the political parties, employees of the public corporations as well as personnel from the private enterprise sector corporations. Some of this information is of a confidential nature and the confidentiality of the source has been honoured where applicable. The purpose of some of the interviews was to obtain a greater insight into the operation of the corporation and to elicit remarks by the respondent in a spontaneous manner; however, at times specific questions were asked in order to clarify certain points or add to data already accumulated.

FOOTNOTES TO CHAPTER I

¹J.M. Clark, "Free Enterprise and a Planned Economy", in Business and Government in Canada: Selected Readings, ed. K.J. Rea and J.T. McLeod (Toronto: Methuen Publications, 1969), p. 83.

²K.J. Rea and J.T. McLeod, eds., Business and Government in Canada: Selected Readings (Toronto: Methuen Publications, 1969), p. xi.

³L.D. Musolf, Public Ownership and Accountability, The Canadian Experience (Cambridge, Massachusetts: Harvard University Press, 1959), p. vii.

⁴E. Roll, "Individual Enterprise and the State," in Business and Government in Canada: Selected Readings, eds. K.J. Rea and J.T. McLeod (Toronto: Methuen Publications, 1969), p. 89.

⁵Ibid.

⁶C.A. Ashley and R.G. Smalls, Canadian Crown Corporations: Some Aspects of their Administration and Control (Toronto: Macmillan Company of Canada Limited, 1965), p. 7, citing Proceeds of Eighth Annual Conference of Institute of Public Administration of Canada, p. 146.

⁷A. Gelinas, ed. Public Enterprise and the Public Interest (Toronto: Imperial Press Ltd., 1978), p. 15.

⁸D. Gracey, "Public Enterprise in Canada", in Public Enterprise and the Public Interest (Toronto: Imperial Press Ltd., 1978), p. 25.

⁹C.A. Ashley and R.G. Smalls, Canadian Crown Corporations: Some Aspects of their Administration and Control (Toronto: Macmillan Company of Canada Limited, 1965), p. 8.

¹⁰C.A. Ashley and R.G. Smalls, Canadian Crown Corporations: Some Aspects of their Administration and Control (Toronto: Macmillan Company of Canada Limited, 1965), p. 4. citing Government and Parliament, p. 292.

¹¹Ashley and Smalls, Canadian Crown Corporations, p. 3..

¹²Gracey, "Public Enterprise in Canada", p. 28.

¹³Canada, Privy Council, Crown Corporations, Directions Control, Accountability (Ottawa: Queen's Printer, 1977), p. 17.

¹⁴Ibid.

¹⁵Ashley and Smalls, Canadian Crown Corporations, p. 19.

¹⁶Ibid., p. 15.

¹⁷Canada, Privy Council, Crown Corporations, Directions Control, Accountability, p. 41.

¹⁸Ibid., p. 18.

¹⁹Ibid., p. 13.

²⁰Canada, Ministry of Supply and Services, Royal Commission on Financial Management and Accountability, Final Report, (Lambert Commission) (Ottawa: Queen's Printer, 1979), p. 277.

²¹Ibid.

²²Ibid.

²³Ibid., p. 279.

²⁴Ibid., p. 289.

²⁵Ibid., p. 439.

²⁶Ibid., p. 357.

²⁷Ibid., p. 358.

²⁸Ibid., p. 356.

²⁹Ibid., p. 356.

³⁰Ibid., p. 443.

³¹Ibid., p. 357.

³²R.A. Dahl and C.E. Lindblom, Politics, Economics, and Welfare (New York: Harper Torchbooks, 1953), p. 501.

³³G. Schubert, The Public Interest (Glencoe, Illinois: The Free Press, 1960), p. 224.

³⁴D. Bell and I. Kristol, "What is the Public Interest?", The Public Interest, 1 (Fall, 1965), p. 5.

³⁵W.A.R. Leys, "The Relevance and Generality of "The Public Interest", in The Public Interest, ed. C.J. Friedrich (New York: Atherton Press, 1966), p. 256.

³⁶Ibid., p. 238.


³⁷R.E. Flathman, The Public Interest: An Essay Concerning the Normative Discourse of Politics (New York: John Wiley and Sons, Inc., 1966), p. 82.

³⁸Ashley and Smalls, Canadian Crown Corporations, p. 6.

³⁹In 1919, Mr. Lemieux Liberal MP argued that the Conservative government's railway policy was interfering with private enterprise. Canada, Parliament, Official Report of Debates (Ottawa: King's Printer, 1919), 1 August 1919, p. 4011. In 1975, Mr. J. Gillies of the Conservatives argued against the establishment of Petro Canada on the same basis as Mr. Lemieux used in 1919. Canada, Parliament, Official Report of Debates (Ottawa: Queen's Printer, 1975), 12 March 1975, p. 4039.

⁴⁰M. Lamontagne, "The Role of Government", in Business and Government in Canada: Selected Readings, eds., K.J. Rea and J.T. McLeod (Toronto: Methuen Publications, 1969), p. 69.

⁴¹G. Hogan, "Free Enterprise", in Business and Government in Canada: Selected Readings, eds., K.J. Rea and J.T. McLeod (Toronto: Methuen Publications, 1969), p. 71.



CHAPTER II

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY

CASE STUDY

The purpose of this chapter is to examine the creation, the structure and operations of British Columbia Hydro and Power Authority in an attempt to evaluate the manner in which this corporation serves the public interest.

The government in British Columbia which was responsible for the creation of British Columbia Hydro and Power Authority was the Social Credit government headed by Premier W.A.C. Bennett. This Government took office in 1952 and remained in power until 1972, a period of twenty years. During that period, the Government took a pragmatic approach towards the form of ownership to be adopted. That is, ideology did not interfere with policy decisions if these decisions were thought to be necessary in order to carry out government policy. This Government, while it claimed that it represented a "free enterprise" party also claimed that it had adopted more socialist measures than any other government in Canada.¹ It was reported that Premier Bennett said:

Nobody knows better than you that I am conservative in finance, yet we have the highest welfare payments in Canada. We have not hesitated to take over the B.C. Electric, which was the main socialist plank.... Nobody can put us in any one category. We take the best from all of the parties.²

Consequently, from a philosophical perspective, this government could rationalize the expropriation of a privately

owned corporation such as the B.C. Electric Company and its conversion into that of a publicly owned corporation, the British Columbia Hydro and Power Authority.

History and Rationale Behind the Formation

At the time British Columbia Hydro and Power Authority was established as a Crown corporation in the 1960's, it was composed of one public utility commission and two expropriated private corporations. One of the privately owned companies was the Peace River Power Development Company which was formed in late 1958 following damsite and engineering investigations by Wenner-Gren B.C. Development Company.³ B.C. Hydro's second predecessor was the British Columbia Power Commission, a provincial crown corporation which was created in 1945 by the coalition government of Progressive Conservatives and Liberals under the Premiership of Mr. John Hart. The Commission was created to improve the availability and supply of electrical power in the less densely populated areas of the province.⁴ The Electric Power Act of 28 March 1945 gave certain powers to the B.C. Power Commission which were contingent upon the approval of the Lieutenant-Governor in Council, and these powers included the development and the acquisition of power-sites, power projects, and power plants, and the integration of existing power plants.⁵ The Commission acquired many small existing systems, and it brought electric service to widely scattered districts which had no electric service, or where service was inadequate.⁶ The third, and largest, predecessor

of B.C. Hydro was the British Columbia Electric Company Limited (B.C. Electric), a privately owned enterprise, the origins of which can be traced back to 1860.⁷ By 1961, the B.C. Electric was the second largest private utility in Canada.⁸ The history behind these expropriations and the amalgamation of these three corporations to form the British Columbia Hydro and Power Authority is controversial from almost any perspective. Since a detailed coverage of this history is beyond the scope of this paper, only a summary of this history will be attempted.

A main factor in the creation of British Columbia Hydro and Power Authority was Premier W.A.C. Bennett's interest in developing hydro-electric power on the Peace River in the northeastern part of British Columbia. The development and settlement of this region would be possible if cheap and abundant power could be made available.⁹ In 1956, the Swedish financier, Mr. Axel Wenner-Gren and some associates formed the Wenner-Gren B.C. Development Company to investigate the development of the underdeveloped northern part of British Columbia. In that year the company signed a memorandum of intention with Premier Bennett whereby it was to, among other things, develop approximately 40,000 square miles of the northern part of the province and make a general survey of the area, which included the possibility of hydro electric generation.¹⁰ Subsequently, in 1957, the company signed a second memorandum of agreement to conduct surveys in order to determine the feasibility of a major hydro-electric project on the Peace River on

or before December 31, 1959.¹¹ In late 1958 the Peace River
Power Development Company was formed and, among other things,¹²
this company was to undertake the construction of a hydro-
electric plant on the Peace River. This project was to cost
approximately \$600 million.¹³

Mr. Strachan (CCF MLA - Cowichan-Malahat) criticized the
development of a private power operation when its creation was
announced. In his view, the Peace River Power Development
Company and the British Columbia Electric Company and all
other private power companies should be placed under public
ownership. He stated that:

The Peace was going to be another Trans-Canada Pipeline
deal. A few individuals would make millions tax free
in stock deals and the consumer will foot the bill. The
CCF would develop the Peace if it is feasible, whenever
it is needed.¹⁴

Mr. Strachan also made it clear at that time that he did not
think it would be needed.¹⁵

Before the Peace River Power Development Company began
planning its project, the provincial government was also
planning the development of the hydro-electric power on the
Columbia River. The Columbia River hydro-electric power was
to involve the province of British Columbia, the Canadian
government, and the United States government. The problems
of development of the Columbia River were complex. The
negotiation of an international agreement as well as a Canadian
approach which both federal and provincial governments agreed
to required substantial effort and spanned a period of twenty
years.¹⁶ To develop the projects on two rivers, it was

necessary to use both private and public financing to cover the costs.¹⁷

In 1959, Premier Bennett announced that the Columbia would be developed by a government agency and the Peace would be developed by private capital. In Premier Bennett's judgment, the government could not afford both to develop the Columbia and to buy B.C. Electric.¹⁸ It has been pointed out that, during this period, as hopes increased for an international agreement which might result in the commencement on the Columbia River development, federal cabinet ministers as well as some prominent Progressive Conservatives joined other Canadians who were becoming more and more concerned at the extent to which Premier Bennett was dedicated to the Peace River development, and they began to openly question his predilection with the Peace project.¹⁹ Their concern was based on the assumption that there would be no change in the prohibition of long-term power exports, and, as a result, the proposed two-river developments would be directly competitive. To them, the concurrent development of the two rivers that Premier Bennett supported did not seem to be credible since they held the conviction that Peace River power could not be competitive with energy from the Columbia because it had to bear the cost of private financing and a 600 mile long transmission line without any assistance from downstream benefits.²⁰

From the outset, the Peace project began running into financial problems. Mr. Mainwaring, president of the Peace River Power Development Company, found that neither the

B.C. Electric nor the B.C. Power Commission would give him a letter of intent to buy power from the Peace.²¹ Premier Bennett was anxious to have a start made on the Peace River Project. In June 1960, the Premier met with Sir Andrew McTaggart of the Peace River Power Development Company and Mr. Grauer of the B.C. Electric Company in London, England. At this time, Premier Bennett asked Sir Andrew McTaggart for a definite date for the raising of capital, and Sir Andrew McTaggart replied that his company could not raise the financing without a contract. When Premier Bennett asked Mr. Grauer if his company intended to buy Peace power, Mr. Grauer replied that it did not. Premier Bennett told both Mr. Grauer and Sir Andrew McTaggart that he expected them to find a way in which the Peace River Development Company could ask the provincial Public Utilities Commission in September for formal permission to proceed. If not, Premier Bennett said he would have to review the whole situation.²²

By the summer of 1961, Premier Bennett announced more detailed plans for making the two-river policy work. The Peace would provide power for British Columbia, and the power produced by the Columbia downstream in the United States would be sold there instead of being returned to Canada as the treaty envisioned. In addition, extra generators were to be put in both the Peace and Columbia dams and the profits from the power exported to the United States would help to lower the costs to the domestic customers.²³

At this time, mid 1961, a contract to purchase power from the Peace River Project had not been signed by either the B.C. Electric Company or the B.C. Power Commission. Subsequently, on August 1, 1961, Premier Bennett called a special session of the legislature to introduce Bill No. 5, the measure by which the B.C. Electric Company, a subsidiary of B.C. Power Corporation, was converted into an agency of the Crown. Premier Bennett's government now ordered the B.C. Electric Company to take over the Peace River Power Development Company for \$8,020,000.²⁴ It was reported that only Premier Bennett, Attorney-General Robert Bonner, and four government employees knew of this plan to take over the B.C. Electric and Peace River Power Development Company before it was introduced in the legislature,²⁵ although there had been speculation earlier that Premier Bennett would expropriate the B.C. Electric.

One reason Premier Bennett gave for these expropriations concerned federal tax concessions. In the legislature on August 2, 1961, one day after the expropriations, Premier Bennett offered this explanation as justification for his actions:

At the federal provincial conference of October 15-16, 1959, I stated British Columbia's feeling that the income tax on privately owned public utilities should either be abolished or the province should get 100% of such a tax. I pointed out that privately owned utilities operated under regulations similar to those governing Crown-owned public utilities in the same sense that their rates are controlled by public utility boards. I stated further that unless the Federal

Government abolished its tax on private utilities, British Columbia would have to take over the B.C. Electric in order to protect our customers, and that the responsibility for such action would have to rest on the Federal Government.... Again, at the conclusion of the conference held in Ottawa, last February 23 and 24, I reported fully and plainly to this House on the subject of power corporation taxes.... And I concluded by saying, quote: 'I give notice now to the Federal Government ... that unless we get fair treatment, we will have to take over the B.C. Electric.'²⁶

By expropriating B.C. Electric, the Premier provided the province with important collateral for borrowing money for further development. The costs of not one but two river projects required vast sums of money and this measure provided one way to meet those costs.

Mr. Strachan claimed the government bill to expropriate the companies was a great victory for his party since it had been campaigning for public ownership of electrical power for years. He said, however, that the expropriations were not done because of the benefit this would bring to the people of British Columbia. They were done because of Premier Bennett's "great vendetta with Ottawa and the Conservative Party, which he twice tried to lead."²⁷ The Honourable Howard Green, the then Secretary of State for External Affairs, stated that the province of British Columbia took over the B.C. Electric because the company would not buy power from the Peace River Project. This refusal blocked the Premier's plan for the joint development of the Peace and Columbia Rivers.²⁸

A journalist, in reviewing the effect the expropriations would have on Premier Bennett's plan for a two-river policy of hydro-electric development, commented:

By refusing the right to export, Ottawa can hamstring his [Premier Bennett's] plan to use our Columbia downstream benefits (the value taken in cash or power created in the U.S. from water stored in Canada) to build the Peace. But he also can stall the Columbia by refusing to carry out the treaty between Canada and the U.S. So it's a clash of wills with the Premier dictating the terms. By seizing the Peace project, he has removed one big objection to his power integration plan.... He also challenges the export ban on the grounds that the Columbia Treaty itself calls for the export of power. It's only common sense to sell the surplus until the B.C. market requires it, he argues.... And the more surplus there is to sell the more B.C. makes out of it. Hence two rivers instead of one and enough revenue to finance the multi-million dollar outlay.²⁹

A main reason that B.C. Electric had refused to co-operate with the Premier initially was the fact that the Peace project was only one of a number of alternative sources of power. The B.C. Electric Company also had financial reasons for refusing to purchase Peace River power since the company had made arrangements to supply its needs for power as far ahead as 1973, and the B.C. Electric Company said it would be unwise to contract with the Peace River Power Development Company for large quantities at higher prices than it thought justified.³⁰

In sum, the main reasons for the creation of British Columbia Hydro and Power Authority may be viewed in the context of the Premier's desire to develop hydro-electric power in the province. The development of two river projects needed major financing arrangements; therefore, with the sale

of the downstream benefits to the United States providing a large sum of capital and with the expropriated B.C. Electric Company providing collateral for borrowing purposes, the two-river project could begin to become a reality.

Structure and Operation

The Power Development Act was enacted in August 1961. The Act authorized the transfer of all the common shares of the British Columbia Electric Company Limited from the sole shareholder British Columbia Power Corporation Limited to Her Majesty the Queen in right of the Province in exchange for a fixed price. In addition, the existing directors of the B.C. Electric Company were replaced by nominees of the government.³¹ A complex situation developed after the takeover of the B.C. Electric Company. It included litigation against the government of British Columbia and the proclamation of a number of orders-in-council and a number of Acts of the British Columbia legislature before the amalgamation was confirmed.

In the first instance, the B.C. Power Corporation commenced action in the Supreme Court of British Columbia on November 13, 1961, claiming that the Power Development Act, 1961 was not within the constitutional power of the province of British Columbia and that the price paid for the shares was inadequate. While the litigation was in process, on March 29, 1962, the provincial legislature enacted the

Power Development Act, 1961, Amendment Act 1962 which altered the compensation payable to the B.C. Power Corporation for its shares. On March 29, 1962, the provincial legislature also enacted the British Columbia Hydro and Power Authority Act which purported to amalgamate the B.C. Electric Company with the British Columbia Power Commission. Section 3 of the Act provided, generally, that the amalgamated body should be known as British Columbia Hydro and Power Authority and that it had all the rights and was subject to all the debts of the amalgamating corporations.³²

On July 29, 1963, the Power Development Act, the Amendment Act, and the British Columbia Hydro and Power Authority Act were declared invalid by the Supreme Court of British Columbia.

These statutes were, therefore, legally deemed never to have existed and the Electric Company [B.C. Electric Company] and the Commission [B.C. Power Commission] were therefore automatically 'de-amalgamated' at law. However, by this time the affairs and the management were so thoroughly combined that it was impossible to separate them and in fact they continued to carry on business under the name of British Columbia Hydro and Power Authority.³³

Subsequently, on September 27, 1963, pending preparation for appeal to the Court of Appeal, the law suit was settled by agreement. The common shares of the B.C. Electric Company were acquired from the B.C. Power Corporation by Her Majesty the Queen in right of British Columbia retroactive to August 1, 1961, at an agreed price. The purchase was later confirmed by the British Columbia Electric Company Limited Acquisition Act on March 20, 1964.³⁴

The Power Measures Act, 1964 was passed on March 20, 1964, and Section 3 of this Act authorized the B.C. Electric Company and the B.C. Power Commission to carry on business under the name of British Columbia Hydro and Power Authority, but it did not create a new body. At the same time, the British Columbia Hydro and Power Authority Act, 1964 was passed and it came into effect on March 23, 1964. Pursuant to Section 3 and 6 of this Act, directors were appointed by order-in-council No. 966 made April 17, 1964, and the British Columbia Hydro and Power Authority came into existence. "The Electric Company [B.C. Electric] and the Commission [B.C. Power Commission], sometimes each in its own name and sometimes under the firm name of British Columbia Hydro and Power Authority, and the Authority continued to carry on business together until August 20, 1965."³⁵ In this regard, the legal department of B.C. Hydro has provided the following information:

On 20 August 1965 Order-in-Council No. 2386 made that date under Section 14 of the British Columbia Hydro and Power Authority Act, 1964, and Section 9 (1) of the Power Measures Act, 1964, gave approval to the Authority, the Electric Company and the Commission to amalgamate. This they did by agreement dated 20 August 1965.

The Electric Company and the Commission ceased to exist as separate corporations and the Authority is possessed of all the property rights and assets and, subject to the Power Measures Act, 1964, is liable for all the obligations of the amalgamating corporations. The Electric Company was dissolved on 23 August 1965 by Order-in-Council No. 2387. The amalgamation was subsequently confirmed by the Power Measures Act of 1966.³⁶

The British Columbia Hydro and Power Authority Act, 1964 states that B.C. Hydro is an agent of the Crown and the Minister of Finance is the fiscal agent of the Authority. Under this Act, the Lieutenant-Governor in Council shall, among other things, ~~appoint~~ the directors and appoint one or more of the directors to the position of chairman or chairmen.³⁷ "The Lieutenant-Governor in Council may appoint an Executive Management Committee of the Authority that shall be composed of not more than five directors, and that shall, subject to the direction of the directors of the Authority, manage the operations of the Authority."³⁸ The appointment of employees may be made by the Authority without regard to the provisions of the Civil Service Act.³⁹ This provision allows the Authority more freedom in its personnel dealings than would be permitted to government departments which come under the Civil Service Act.

The B.C. Hydro Act, 1964 sets out certain requirements for financial reporting; for example, the Minister of Finance may direct the Comptroller General of the province to examine and report to the Treasury Board on any or all of the financial and accounting operations of the Authority, and the accounts are to be audited at least once a year. The bankers and auditors of the Authority are to be appointed by the Lieutenant-Governor in Council, and an annual report is to be made to the Lieutenant-Governor in Council, which is to be laid before the legislature.⁴⁰ All existing securities of the Authority are backed by the province and sinking funds

are provided for by the retirement of long term debt. The B.C. Hydro Act of 1964 states that the province of British Columbia is liable should B.C. Hydro default on payments to its creditors.⁴¹ The initial borrowing ceiling was set at \$500 million and each year's new issues must be approved by the legislature through an amendment to the borrowing ceiling set.⁴²

The mandate set out in the B.C. Hydro Act, 1964, stipulates, in part, that B.C. Hydro is given the authority, subject to the approval of the Lieutenant-Governor in Council to generate, manufacture, distribute and supply power; to develop power sites, power projects and power plants.⁴³

B.C. Hydro's decision making authority is therefore limited to making recommendations to ministers with the Lieutenant-Governor in Council having the formal authority to approve these recommendations. However, there are areas in which B.C. Hydro has the authority to act independently, and some of these areas will be discussed later.

Thus, B.C. Hydro functions under the authority of an Act of the British Columbia legislature. Control and accountability rests with the executive. The Cabinet makes appointments to senior executive positions which in turn are accountable to the government. A chairman, appointed by the government, is in charge of B.C. Hydro and he appoints and directs senior personnel; the directors are appointed by the Lieutenant-Governor in Council (the cabinet); the cabinet is responsible to the people of the province of British

Columbia. There have, however, been criticisms of certain features of the structure of B.C. Hydro.

One of the reasons why government undertakings are organized under the corporate form of organization instead of a government department is to give the government undertakings an independent status so they can operate in a similar way to that of the private sector corporation. This feature was discussed in Chapter I in regard to federal public corporations. Nevertheless, in British Columbia, as in other provinces, cabinet ministers sit on the boards of provincial crown corporations. This practice is not followed at the federal level to ensure appropriate independence from government interference. In the case of B.C. Hydro, legislation does not stipulate that ministers are to be directors on the board. In practice, however, ministers have consistently sat on B.C. Hydro's board of directors. At present, two of the four directors of B.C. Hydro are cabinet ministers.

The need for a more independent status was one reason that back in 1964 Dr. Purdy, former president of B.C. Electric, was critical of the structure of B.C. Hydro. While he stated that B.C. Hydro should remain a public company, he suggested that it should be reorganized at the top and run as a business operation. In his view, cabinet ministers should be removed from the board of B.C. Hydro and the government's only contact with the company should then be through enunciating broad policy objectives.⁴⁴

On one hand, the fact that ministers sit on the board might have a certain degree of merit due to the fact that they become familiar with the operation of the corporation and they are involved in the decision making process of the corporation. On the other hand, there might be a tendency for the other directors, who have expertise in certain fields related to energy distribution, generation, and so forth and who should make decisions based on this expertise, to defer decision making to the ministers who are not necessarily experts in the field of energy. Also, once these decisions are made, the cabinet might not scrutinize these decisions as thoroughly as it would have had ministers not been on the board.

While an independent status might be an important feature for a crown corporation to have in order to operate in a "business-like" fashion, there is the question of how to balance the need for autonomy by the crown corporation on the one hand and the need for direction by and accountability to the government on the other hand.

A conflict of interest seems to exist when the chairman of a crown corporation such as B.C. Hydro is also the director of private sector corporations. For instance, the major debt creating body in the province of British Columbia is B.C. Hydro. Its chairman, Mr. Bonner, represents an organization which is the major creditor organization.⁴⁵ Mr. Bonner is also director of International Nickel, SCOR Reinsurance, Montreal Trust, and J. Henry Schroeder. Montreal

Trust's portfolio, for instance, includes a number of B.C. Hydro customers. This raises the question as to whether or not a chairman of a public corporation should hold an outside directorship and if, in fact, other Canadian crown owned utility companies allow their top executives to pursue outside business interest. Quebec, it was found, is the only province in Canada that allows its top executives to pursue outside business interests in the same way B.C. Hydro allows Mr. Bonner.⁴⁶

If a public corporation is to have an independent status, there is also the question whether B.C. Hydro should have its borrowings backed by provincial guarantees and whether trust funds should be made available to B.C. Hydro. In 1970, both Mr. McGeer (Liberal MLA - Point Grey) and Mr. Williams (Liberal MLA - Point Grey) spoke out against this practice. In the legislature on February 23, 1970, Mr. Williams said: "We have reached the situation, Mr. Speaker, where if B.C. Hydro is to fail, then the entire economic stability of this Province is thrust into jeopardy."⁴⁷ On the other hand, an argument for the use of provincial guarantees can be made on the basis that since a Crown corporation has its borrowings backed by provincial guarantees it should be entitled to borrow at lower rates of interest than are charged the private sector corporations. The saving on interest can then be passed on to the consumer in the form of lower rates.

The manner in which the accounts, the spending, and the expenses of B.C. Hydro have been examined has been criticized.

One recommendation for the improvement of the current system would be to have the Public Accounts Committee of the House look into the affairs of crown corporations and examine vouchers and ask questions.⁴⁸ On the other hand, a suggestion was made which recommended the creation of an Auditor-General for British Columbia who reports to the legislature instead of a Comptroller-General who reports to the Minister of Finance, and one duty of the Auditor-General would be to investigate crown corporations.⁴⁹ Partially as a result of criticisms and recommendations along these lines, the Committee on Crown Corporations was established on the 1st of September 1977 to examine B.C. Hydro and four other crown corporations.⁵⁰ At the time the Act to establish the Committee on Crown Corporations was passed, Premier Bennett was reported to have said that "politicians, statesmen and citizens in all parts of the country are wrestling with the problem of growing big government, especially those parts of government that are removed from the legislative process and the question is how to make them more accountable to the Legislature and to the people."⁵¹

One activity of B.C. Hydro where accountability could also be improved relates to the process whereby rates for gas and electricity are set. At the present time, the legislation is such that B.C. Hydro's board of directors has full power to set rates without consultation with the govern-

⁵² In practice, however, there have always been cabinet ministers on the board of B.C. Hydro which provided an

opportunity for informal consultation between B.C. Hydro and the cabinet ministers on the subject of rates. There seems to be reason to believe that B.C. Hydro should be required to justify any rate increases before a public regulatory body. One reason for having rates publicly regulated would be to inform the public on the electricity needs of the province. In this way, the public would know how increased exports, for instance, might affect the domestic customers. Also, if the government wished to intervene, it would have to do so publicly.⁵³ One Opposition critic commented that he knew of no other agency that delivered fundamental social services that was allowed to increase its rates to the public without a proper hearing, without having to justify these increases, and without allowing the expression of public opposition to proposed rate increases. He recommended that the government set up a public agency to conduct hearings which would allow for public objection to proposed rate increases.⁵⁴

Another area where criticism has been directed lies with the expropriation powers of B.C. Hydro. A former B.C. Hydro lawyer, Mr. Hunter, pointed out, for instance, that the B.C. Hydro Act of 1964 gave B.C. Hydro certain powers of expropriation which it found unsatisfactory because it had to keep going to the government for permission to carry out the smallest detail of every power project. Mr. Hunter noted that "... in 1965, Hydro obtained two orders-in-council by

which it can do anything that was in the old statute and the government told Hydro not to come near it again."⁵⁵

The following are some examples of the broad powers under the B.C. Hydro Act of 1964, subject to the approval of the Lieutenant-Governor in Council, that were given to B.C. Hydro in 1965. Orders-in-council 2193 and 2385 both state: "in accordance with and pursuant to the British Columbia Hydro and Power Authority Act, 1964, and all other powers thereunto enabling, approval be given under section 14 (1) of the said Act to British Columbia Hydro and Power Authority...."⁵⁶

Order-in-council No. 2385 states that B.C. Hydro has the power:

to flood and overflow land, purchase, otherwise acquire, accumulate and store water, raise or lower the level of rivers, lakes, streams, and other bodies of water, and to purchase and otherwise acquire water records and water privileges.⁵⁷

Order-in-council No. 2193 states that B.C. Hydro has the power:

to purchase or otherwise acquire; lease, maintain, develop, replace, alter, administer, manage, operate, and dispose of any property real or personal.⁵⁸

Mr. Hunter said that the phrase, "to purchase or otherwise acquire property" actually means the expropriation of private property.⁵⁹ On the other hand, Mr. Robertson, a B.C. Hydro official, said that B.C. Hydro is required to get separate orders-in-council on three matters - expropriation, pension plans for employees, and borrowing.⁶⁰ However, the

above mentioned orders-in-council are still in force, which would indicate that B.C. Hydro does not necessarily have to obtain cabinet approval on these expropriations. According to Mr. King (NDP MLA - Shuswap-Revelstoke) the powers of expropriation of B.C. Hydro need to be controlled. He said: "The statute that gives B.C. Hydro and Power Authority the power arbitrarily to seize private property and land in this province without any public hearing to justify their need for that particular property is wrong."⁶¹ The B.C. Hydro Act, 1964 stipulates certain procedures that can be taken by an individual or company whose property is being expropriated by B.C. Hydro and who is dissatisfied with the terms of the expropriation. For instance, there is an appeal procedure.⁶² While there is an appeal procedure, there would be certain costs that would have to be borne by the individual or company who wished to challenge the expropriation of their property by B.C. Hydro.

Another criticism of B.C. Hydro's structure and operation relates to the broad range of functions that it performs. An Opposition critic, Mr. Skelly (NDP MLA - Alberni) stated that B.C. Hydro had authority for too many activities. He suggested in 1978 that B.C. Hydro should only be running generation and transmission plants as instructed by a planning authority which is directly responsible to the people of the province.⁶³ Similarly, the Committee on Crown Corporations has also been critical of B.C. Hydro's several

functions. In 1979 the Committee on Crown Corporations recommended the restructuring of B.C. Hydro whereby B.C. Hydro would be divided into several autonomous subsidiaries and, if this were done, B.C. Hydro would become a non-operating holding company and financial agent. The Committee suggested that each management group should have the responsibility of running its operation without incurring losses and the undesirable cross-subsidization which now occurs between B.C. Hydro divisions could be eliminated. The performance of each functional group could be stipulated in the financial statements of the holding company, the reconstituted British Columbia Hydro and Power Authority. The Committee recommended these changes as a means of strengthening B.C. Hydro.⁶⁴

A summary of this section reveals that the government's policy on the supplying of electrical needs of the province is to a great extent entrusted to its publicly owned utility company, British Columbia Hydro and Power Authority. As a wholly owned government entity, B.C. Hydro operates under an Act of the British Columbia legislature and orders-in-council. This legislation stipulates the manner in which B.C. Hydro is to operate. The accountability of B.C. Hydro to the public is generally taken care of through the requirement that it submit specific reports to the Lieutenant-Governor in Council in addition to the requirement that B.C. Hydro has to obtain approval from the Lieutenant-Governor in Council in order to proceed with certain undertakings. Control over B.C. Hydro by the government is also exercised through its power to

appoint the directors. One way in which B.C. Hydro is accountable to the legislature is through a minister who presents the annual report to the legislature for its perusal.

Even though legislation sets out certain areas in which B.C. Hydro is to be ultimately controlled and accountable to the public, certain features of the legislation are questioned on the basis that the public interest could be better served if certain changes were made.

Public Interest

One of the reasons given for the expropriation of the B.C. Electric Company and the Peace River Development Company and their amalgamation with British Columbia Power Commission to form the British Columbia Hydro and Power Authority, a publicly owned enterprise, was to benefit the public. As noted earlier, public interest in this discussion means that the clientele interest served is the interests of the majority of the people of British Columbia as opposed to individual or specific group interests.

The first measure to be applied is the cost of the service to the public. In regard to the expropriation of B.C. Electric, the government arbitrarily set a price of \$38 per share for the common shares of B.C. Electric with no recourse to the courts on this amount. The government paid out \$171,833,052 to the B.C. Power Corporation as compensation for all the common shares of the company. After

a lengthy court battle, this amount was increased to \$197,114,358.⁶⁵ On one hand, the stockholders claimed they were not adequately compensated for their loss in potential income,⁶⁶ and, on the other hand, there were claims that the stockholders were overcompensated.⁶⁷ Therefore, there seems to be a controversy over whether or not the public received fair value for its payment to the stockholders.

In 1962, it was reported that opposition critics argued that the government should not have paid \$8,020,000 for the purchase of the Peace River Development Company. The Opposition was reported to have said that the government should have let Wenner-Gren's company default on its undertakings and then the government could take it over at cost. It was argued that the company would have eventually become worthless because the B.C. Energy Board's Report had shown that Peace River power developed privately would have been fifty per cent more expensive than Columbia River power.⁶⁸

In 1964, when the treaty between Canada and the United States was ratified, B.C. Hydro became the Canadian entity charged with construction and operation of the three treaty dams in British Columbia.⁶⁹ The inquiry by the Committee on Crown Corporations into the Columbia River Treaty Projects found irregularities and blunders; for instance, there were inconsistent planning procedures and a lack of a careful analysis as to the best type of contract form to use. Some contracts were issued on a cost plus basis which covered a very small proportion of the total cost of the project - the

management fee. The Committee also found that unilateral decisions were made by the executive management committee in one instance and by the chairman in another.⁷⁰

The Committee noted that during the hearings which were conducted in May and June, 1978 that B.C. Hydro's emphasis was almost singularly on the engineering aspect of the project. The Committee also expressed concern about the present strength of the financial division and the current role in planning and decision making, and it had this to say:

It is all too obvious that if inadequate financial planning and control were to exist today, in consideration of the enormous scale of Hydro projects and their related costs (e.g. Revelstoke estimated at twice the cost of Mica), the consequences for both Hydro and the province could be severe.⁷¹

The Committee stated that as of March 31, 1978, the total cost of Duncan, Arrow, and Mica storage projects were 24 per cent higher than the estimated cost.⁷² Even though losses might have occurred from the government's electrical development projects, these projects have provided an abundance of electricity which has been a factor in encouraging industry and this has in turn helped to develop the province of British Columbia.

In 1961, when the government expropriated B.C. Electric, the public was promised rate reductions when the utility became publicly owned. In the first year B.C. Hydro introduced two rate reductions and standardized both residential and small commercial electric rates throughout the province and a bulk power rate was introduced for large industries.

A new uniform extension policy applied to all residential lands and farms was put into effect in which B.C. Hydro paid a greater proportion of the initial cost of extension.⁷³ The 1963 Annual Report states: "The adoption of new extension policies and the introduction of lower power rates are designed to encourage the development and expansion of industry in British Columbia."⁷⁴

Electric rates fell in each of the next three years; however, in 1967, 1970, 1974, 1975, and 1976 the rates were increased. These increases were between 10 and 20 per cent and the large users had hikes in excess of 50 per cent between 1974 and 1976.⁷⁵ Although inflation might have been a factor in the need for an increase in the rates in 1967, it is interesting to note that on February 27, 1963, Premier Bennett had predicted a \$5,000,000 reduction in power rates for the next ten years,⁷⁶ which would bring the first increase in rates no earlier than 1973, instead of 1967. The rates have been steadily increasing since 1967, with the two latest increases occurring in the fall of 1979 and the spring of 1980.

A comparison of rates is difficult to undertake due to such factors as terrain, distances, and concentration of population in addition to the type of electrical generation - water, gas, or coal. The majority of electric utility companies in Canada are publicly owned; however, there are two privately owned utility companies in Alberta to which a comparison can be made in regard only to rates. It was found

that in these cases in 1979 B.C. Hydro's rates compared favorably with the one private utility and the other private utility had a higher rate structure than that of B.C. Hydro.⁷⁷

When a comparison is made between the service that was offered prior to the establishment of B.C. Hydro and what is now offered, it was revealed that B.C. Electric mainly serviced the higher density population areas of British Columbia where it would be cheaper to service than remote areas whereas B.C. Hydro was required to service the majority of areas in British Columbia. The provincial government does, however, make an annual grant to B.C. Hydro to provide financial assistance for the electrification of rural areas in British Columbia.⁷⁸ Even today, there are a few areas serviced by private electric companies; however, B.C. Hydro provides services to more than 90 per cent of the population of British Columbia.⁷⁹ At the time B.C. Hydro was established rates were not standardized throughout the province. With the exception of a few remote areas, rates are now standardized throughout the province.⁸⁰

The rate structure of B.C. Hydro came under criticism in 1978 from Mr. King when he argued that the rate structure was set up in a way as to discriminate against domestic users. As he stated:

Any cursory examination of the rate structure demonstrates that the large block users of electrical energy in this province are receiving their huge chunks of power at bargain basement rates; while, conversely, the home consumer of electrical energy is paying a far higher rate for the small proportion of energy that he uses.⁸¹

Therefore, the opposition critic concluded that the rate structure encouraged the demand for increased generating capacity and the public was ultimately held responsible for the intensive capital investment to produce that increased generating capacity which is largely created by the large block energy users.⁸² A rate increase and a new rate structure came into effect on April 1, 1980, which is designed to encourage the conservation of energy since the increase affects customers in proportion to their use of electricity; for instance, the increase in rates to residential customers ranges from 1.7 per cent to 9.6 per cent, a small percentage of general customers will pay up to 19 per cent more, and some big industrial customers will pay 22 per cent more.⁸³

The view that B.C. Hydro was expanding its electrical output more than was required to meet the energy needs of the province of British Columbia and the view that this practice was not in the public interest was expressed by an Opposition MLA when he said that B.C. Hydro:

is really in the business of generating electrical energy in the province, building transmission lines to deliver it, while at the same time controlling the volume of their sale. Now if you relate that to any other enterprise, private or public, one can readily see that such an authority or power delivers to that corporation the ability to build their own empire, to estimate energy need related to a self-fulfilling prophecy and the desire for their own empire building rather than paying attention to the public interest.⁸⁴

In regard to the issue of the expansion of the electrical output beyond the energy needs of the province of British

Columbia, there are certain factors to take into consideration. For instance, more than 95 per cent of the electricity generated by B.C. Hydro is hydroelectric, and this depends upon the water level which tends to vary. B.C. Hydro's plans are based upon low water years; however, in high water years there will be a surplus which occurs on an average of nine out of ten years. B.C. Hydro, for example, argues that it is better to have an over supply than an under supply of electrical energy. An under supply of electricity might result in the closing of industries and this would tend to discourage industrial development. On the other hand, the extra cost to provide an over supply is minimal and the surplus energy can be sold to other provinces of Canada and the United States for a considerable profit which should ultimately benefit the consumer through reduced rates.⁸⁵

The fact that the long term debt of B.C. Hydro is so high and the fact that the province of British Columbia guarantees this debt are areas that need to be examined. Since 1963 there has been an increase in the long term debt from \$663 million to a ceiling of \$5.65 billion in 1979.⁸⁶ Over the years each government has increased the borrowing limit for B.C. Hydro. With this increased long term debt follows an increase in servicing this debt in the form of interest charges. The Balance Sheet of B.C. Hydro at March 31, 1963, showed interest accrued on long term debt, parity development bonds and notes payable at \$10.4 million

and by 1979 this figure had increased substantially to \$286.1 million.⁸⁷ B.C. Hydro is now being forced to rely upon both private placement and public issue in Canada and the United States. Internally generated funds have been providing an increasingly smaller percentage of the Authority's capital requirements.⁸⁸

On the one hand, there seems to be reason to question the rationale behind the increase in the size of the debt and the increase in the cost of servicing this debt. On the other hand, it is noted that B.C. Hydro is currently able to finance its operations and interest payments out of revenue and it is only the large capital expenditures on dams that have necessitated the borrowings.⁸⁹

Arguments have been made against the use of provincial guarantees to B.C. Hydro on the basis that (1) should B.C. Hydro default on its payments the province of British Columbia will be liable for the debt and (2) B.C. Hydro should be required to borrow in the same manner as private sector companies. These arguments are countered by the arguments that (1) B.C. Hydro is no more vulnerable to the fluctuations in the economy than any other business and (2) if B.C. Hydro can borrow money at a slightly lower rate of interest because of provincial guarantees, which cost the province nothing unless B.C. Hydro defaults on its obligations, then the consumers of electricity will ultimately benefit from slightly lower rates as a result of the saving on interest rates.

Summary

This case study has examined the creation and the structure and operation of British Columbia Hydro and Power Authority in an attempt to determine how the public interest is served.

It was found that one of the main reasons for the government's actions in expropriating two privately owned corporations and amalgamating them with a public commission to form a public corporation, British Columbia Hydro and Power Authority, was to develop the province and this development would thus provide hydro-electric service to a greater number of people in British Columbia. The refusal by the B.C. Power Commission and the B.C. Electric to buy hydro-electric power from the Peace River Project hindered the government's plans for the development of the province. The placing of B.C. Electric under government ownership resulted in the saving of a large sum of money which previously had been payable to the federal government by the privately owned B.C. Electric and was not payable by a publicly owned utility. The expropriations and amalgamation resulted in the consolidation of the services, the distribution, and the generation of hydro-electric power in British Columbia to basically one entity, the publicly owned British Columbia Hydro and Power Authority. As a result, the government could direct the purchase of hydro electric power by B.C. Hydro from either the Peace or the Columbia. Consequently, the government's policy for the development of the province

could be carried out in so far as hydro-electric services are concerned.

The structure of B.C. Hydro was examined and it was found that any changes that might be necessary in order to make B.C. Hydro more accountable to the public and better serve the public interest can be implemented by the government. In the final analysis, British Columbia Hydro and Power Authority is a creature of the government and it is subject to the government's directives and policy. Some of the areas where changes could be made to improve accountability and serve the public interest better include the creation of a Public Utilities Commission, for example, since this Commission could be charged with the responsibility of examining the rate structure and the encouragement of public participation into the decision-making process of determining rates. It was reported that legislation would be introduced which would revitalize the B.C. Utilities Commission and one of its functions would be to regulate electricity rates. Therefore, the situation in which B.C. Hydro does not have to justify rate increases might come under scrutiny if and when this legislation is enacted and the Commission is in operation.

It was mentioned earlier that ministers are on the board of directors and this practice seems to reduce the public and legislative scrutiny of B.C. Hydro's operations since, for, example, there might be a tendency not to thoroughly question the decisions made by B.C. Hydro because ministers

are on the board. Also, one of the reasons why a government uses the corporate form rather than the departmental form of organization is to give the corporation more autonomy than is given to a government department; therefore, the practice of having ministers sit on the board of directors of B.C. Hydro reduces the autonomy of B.C. Hydro to function in the way a crown corporation was originally designed to operate.

With respect to the services provided to the public by B.C. Hydro, the public interest is served in a number of ways. Several criticisms of both B.C. Hydro and the government's relationship to the corporation have been noted. It would seem that there are areas in which B.C. Hydro and the government could improve the way in which the corporation serves the needs of the people of British Columbia. To a large extent, however, the province of British Columbia's electricity needs have been supplied by B.C. Hydro. In this respect, B.C. Hydro supplies the electricity needs of the majority of the people of the province and B.C. Hydro has been instrumental in standardizing rates throughout most of the province. In addition, the availability of electricity has been one factor which has contributed to the development of the province.

While this chapter examined a public utility company, the next chapter is concerned with a publicly owned insurance company, the Insurance Corporation of British Columbia.

FOOTNOTES TO CHAPTER II

- ¹p. Sherman, Bennett (Toronto: McClelland and Stewart Limited, 1965), p. x.
- ²Ibid., p. 304.
- ³J.A. Irving, "Bennett's Design for Progress," Saturday Night, May 26, 1962, p. 19.
- ⁴"The B.C. Hydro Story", (Vancouver: British Columbia Hydro and Power Authority, 1976),
- ⁵British Columbia, Laws, Statutes, etc., Electric Power Act, Chapter 27 (Victoria: King's Printer, 1945), Sec. 4.
- ⁶"B.C. Hydro Story".
- ⁷British Columbia Hydro and Power Authority, Annual Report (Vancouver: British Columbia Hydro and Power Authority, 1971),
- ⁸Kamloops Daily Sentinel, August 2, 1961.
- ⁹J.A. Irving, Saturday Night, p. 19.
- ¹⁰N.A. Swainson, Conflict over the Columbia, The Canadian Background to an Historic Treaty (Montreal: McGill-Queen's University Press, 1979), p. 82.
- ¹¹Ibid., p. 83.
- ¹²Ibid., p. 95.
- ¹³J.A. Irving, Saturday Night, p. 19.
- ¹⁴p. Sherman, Bennett, p. 225.
- ¹⁵Ibid.
- ¹⁶N.A. Swainson, Conflict over the Columbia, p. 2.
- ¹⁷J.A. Irving, Saturday Night, p. 19.
- ¹⁸p. Sherman, Bennett, p. 222.
- ¹⁹N.A. Swainson, Conflict over the Columbia, p. 117.
- ²⁰Ibid.

- ²¹P. Sherman, Bennett, p. 228.
- ²²Ibid., p. 230.
- ²³Ibid., p. 245.
- ²⁴Vancouver Sun, August 3, 1961.
- ²⁵Ibid.
- ²⁶Monetary Times, November, 1961.
- ²⁷Globe and Mail, August 4, 1961.
- ²⁸Vancouver Sun, January 16, 1962.
- ²⁹Vancouver Sun, August 5, 1961.
- ³⁰Vancouver Province, February 22, 1964.
- ³¹British Columbia, Laws, Statutes, etc., Power Development Act, 1961, Chapter 4 (Victoria: Queen's Printer, 1961), Sec. 3b.
- ³²British Columbia, Laws, Statutes, etc., British Columbia Hydro and Power Authority Act, Assented to 29 March 1962 (Victoria: Queen's Printer, 1962)
- ³³Letter from the Legal Division, British Columbia Hydro and Power Authority, 23 April 1980.
- ³⁴Ibid.
- ³⁵Ibid.
- ³⁶Ibid.
- ³⁷British Columbia, Laws, Statutes, etc., British Columbia Hydro and Power Authority Act, 1964, Chapter 7 (Victoria: Queen's Printer, 1964).
- ³⁸Ibid., Sec. 11 (1)
- ³⁹Ibid., Sec. 12.
- ⁴⁰Ibid., Sec. 50.
- ⁴¹Ibid., Sec. 46 (5)
- ⁴²Ibid., Sec. 47.

⁴³Ibid.

⁴⁴Vancouver Sun, February 19, 1964.

⁴⁵British Columbia, Legislative Assembly, Debates, 26 May 1978 (Victoria: Queen's Printer, 1978), p. 1714.

⁴⁶Vancouver Sun, August 2, 1979.

⁴⁷British Columbia, Legislative Assembly, Debates, 9 February 1970 (Victoria: Queen's Printer, 1970), p. 1722.

⁴⁸British Columbia, Legislative Assembly, Debates, 23 February 1970 (Victoria: Queen's Printer, 1970), p. 538.

⁴⁹British Columbia, Legislative Assembly, Debates, 9 February, 1970 (Victoria: Queen's Printer, 1970), p. 254.

⁵⁰The Committee on Crown Corporations was established by the Legislature of British Columbia on September 1, 1977. This Act empowers the Committee "to examine such directors and officers as it considers necessary of every corporation named in the Schedule in respect of the annual report of the corporation... and, to the extent determined by the Committee, generally inquire into and examine the management, administration and operation of each corporation" British Columbia, Laws, Statutes, etc., Crown Corporation, Reporting Act, 1st September 1977, Chapter 49 (Victoria: Queen's Printer, 1977), Sec. 2. One of the Committee's duties was to give primary consideration to "the public interest in respect of the corporation." Ibid. Two of the five crown corporations that the Committee was to examine are B.C. Hydro and the Insurance Corporation of British Columbia. Ibid., Schedule.

⁵¹British Columbia, Committee on Crown Corporations, First Annual Report of The Committee on Crown Corporations, January, 1979.

⁵²British Columbia, Public Service Commission, The Organization of the Public Service of the Province of British Columbia, (Victoria: Queen's Printer, 1979), p.230.

⁵³Vancouver Province, July 25, 1979.

⁵⁴British Columbia, Legislative Assembly, Debates, 26 May 1978 (Victoria: Queen's Printer, 1978), p. 1719.

⁵⁵Vancouver Express, February 7, 1979.

⁵⁶British Columbia Gazette, September 16, 1965 (Victoria: Queen's Printer, 1965) Order in Council No. 2385, Approved August 20, 1965 B.C. Regulation 155/65, British Columbia Hydro and Power Authority Act, 1964, Extending Powers of Authority and British Columbia Gazette, August 19, 1965 (Victoria: Queen's Printer, 1965) Order in Council No. 2193, Approved July 20, 1965, B.C. Regulation 146/65 British Columbia Hydro and Power Authority Act, 1964, Granting Power to Authority under Section 14 (1) of Act, p. 207.

⁵⁷British Columbia Gazette, September 16, 1965, Order in Council No. 2385.

⁵⁸British Columbia Gazette, August 19, 1965, Order in Council No. 2193, p. 207.

⁵⁹Vancouver Express, February 9, 1979.

⁶⁰Ibid.

⁶¹British Columbia, Legislative Assembly, Debates, 26 May 1978 (Victoria: Queen's Printer, 1978), p. 1722.

⁶²British Columbia, Laws, Statutes, etc., British Columbia Hydro and Power Authority Act, 1964, Chapter 7 (Victoria: Queen's Printer, 1964), Sec. 32-43.

⁶³British Columbia, Legislative Assembly, Debates, 26 May 1978 (Victoria: Queen's Printer, 1978), p. 1720.

⁶⁴British Columbia, Committee on Crown Corporations, Inquiry into British Columbia Hydro and Power Authority Construction Management Practices Columbia River Treaty Projects, Executive Summary, 1979, p. 16.

⁶⁵British Columbia Hydro and Power Authority, Annual Report (Vancouver: British Columbia Hydro and Power Authority, 1964).

⁶⁶Barrons, August 21, 1961.

⁶⁷S. Jamieson, "Power in B.C.", Canadian Forum, May, 1962, p. 35.

⁶⁸J.A. Irving, Saturday Night, p. 19.

⁶⁹"B.C. Hydro Story".

⁷⁰British Columbia, Committee on Crown Corporations, Inquiry ... Columbia River Treaty Projects, p. 12.

⁷¹Ibid., pp. 6-9

⁷²Ibid, p. 12.

⁷³S.L. Osler, "An Application of Marginal Cost Pricing Principles of B.C. Hydro," University of British Columbia Master Thesis, June, 1977, p. 19. °

⁷⁴British Columbia Hydro and Power Authority, Annual Report (Vancouver: British Columbia Hydro and Power Authority, 1963),

⁷⁵Osler, "An Application of Marginal Cost Pricing Principles of B.C. Hydro", p. 19

⁷⁶British Columbia, Legislative Assembly, Debates, 23 February 1970 (Victoria: Queen's Printer, 1970), p. 530.

⁷⁷Interview with British Columbia Hydro and Power Authority employee, February 1980.

⁷⁸"B.C. Hydro Story".

⁷⁹British Columbia, Public Service Commission, The Organization of the Public Service of the Province of British Columbia (Victoria: Queen's Printer, 1979), p. 226.

⁸⁰"B.C. Hydro Story".

⁸¹British Columbia, Legislative Assembly, Debates, 26 May 1978 (Victoria: Queen's Printer, 1978), p. 1722.

⁸²Ibid.

⁸³Vancouver Province, February 19, 1980.

⁸⁴British Columbia, Legislative Assembly, Debates, 26 May 1978 (Victoria: Queen's Printer, 1978), p. 1722.

⁸⁵British Columbia Hydro and Power Authority "For Your Information", Public and Consumers Relations Division, (Vancouver: British Columbia Hydro and Power Authority, 1980), 21 January 1980.

⁸⁶British Columbia Hydro and Power Authority, Annual Reports (Vancouver: British Columbia Hydro and Power Authority, 1963, 1979).

⁸⁷British Columbia Hydro and Power Authority, Annual Reports (Vancouver: British Columbia Hydro and Power Authority, 1963, 1979).

⁸⁸Osler, "An Application of Marginal Cost Pricing Principles of B.C. Hydro," p. 18

⁸⁹Interview with employee of British Columbia Hydro and Power Authority, November, 1979.

⁹⁰Vancouver Sun, February 19, 1980.

CHAPTER III

INSURANCE CORPORATION OF BRITISH COLUMBIA

CASE STUDY

This chapter examines the creation and structure of a publicly owned insurance company, the Insurance Corporation of British Columbia, in an attempt to evaluate the manner in which it serves the public interest. In this context, the three central issues and the questions raised in Chapter I will be addressed.

In 1972, the Social Credit Government headed by Premier W.A.C. Bennett was defeated by the New Democratic Party. The new Government under the leadership of Premier Barrett supported public ownership on a selective basis. One of the areas in which this Government extended public control was in the area of automobile insurance. The Insurance Corporation of British Columbia was established in 1973 following several years of review of the insurance industry in the province.

History and Rationale Behind the Formation

The Insurance Corporation of British Columbia was established in 1973 to operate as a government owned insurance company. Government owned insurance companies at this time existed in only two other provinces - Manitoba and Saskatchewan. The Saskatchewan government created a publicly owned insurance company when it formed the

Saskatchewan Government Insurance Office in 1946. This was the fulfillment of an election promise of the Co-operative Commonwealth Federation (CCF) Government headed by Premier Douglas. Similarly, the New Democratic Government of Manitoba created a publicly owned insurance company in 1970.¹

The history behind the formation of the Insurance Corporation of British Columbia (ICBC) in 1973 is basically related to the history of the automobile insurance industry in British Columbia. Although there were more than 180² different automobile insurance companies doing business in British Columbia in 1972, they were not competitive; their rates were almost identical.³

In 1966 the Social Credit Government established a Royal Commission on Automobile Insurance to investigate the automobile insurance industry. The report which was published in 1968 provided a lengthy and exhaustive study of automobile insurance and related questions. From 1964 to 1968, for instance, insurance premiums increased by 84 per cent. Claims, on the other hand, only went up 58 per cent during the same period.⁴ The Commission noted that during 1966, for example, the price at which automobile insurance was sold was standardized over almost 80 per cent of the market. The Commission said: "In the opinion of the Commissioners, through creation of the Insurance Bureau of Canada, there is in British Columbia, at least, a significant

concentration of groups acting in concert."⁵ The Commission also stated that:

Uniformity in price appeared very much more pronounced than was the case prior to the formation of the Insurance Bureau of Canada, as many companies which formerly appeared to exercise some independent judgment on rates ceased to do so. This is not to say that the nominal deviation in rates between I.I.C. [Independent Insurance Conference] and the C.U.A. [Canadian Underwriters' Association], for example, or of larger independents is to be taken as a desirable level of competition.⁶

In addition to being non-competitive, the automobile insurance was also found by the Commission to be detrimental to the public interest in the following ways: (1) accident insurance was payable on a fault basis, (2) insurance coverage was on the motor vehicle rather than on the driver, (3) no guarantee of compensation to passengers in a motor vehicle, bicyclists, and pedestrians in the case of an automobile accident, (4) no compulsory automobile insurance, and (5) an automobile insurance policy could be cancelled. Besides recommending the correction of the above deficiencies, the Commission recommended that a licence to drive be contingent upon the purchase of a basic automobile insurance policy.⁷ The Commission also recommended that if the insurance industry would not participate in the offering to the public of the new types of contracts that it had recommended and under the conditions which it proposed that the government of British Columbia should take over the sole selling of all automobile insurance in British Columbia.⁸

The provincial government followed one of the recommendations when it made motor vehicle liability insurance

compulsory; however, it did not service this compulsory market.⁹ Many motorists were discriminated against, forcing them to resort to a special and more costly facility for obtaining insurance. If they could not obtain insurance for certain reasons, the motorist could gamble and drive without insurance. This resulted in thousands of motorists on the roads without insurance which exposed innocent citizens to the risk of dire financial loss.¹⁰

Compulsory automobile insurance had been an NDP policy since 1962 and a universal non-profit government automobile insurance scheme had been a policy of the British Columbia NDP from 1966.¹¹ Public ownership of certain areas of the insurance industry had even been considered seriously by the Social Credit Party prior to the election of the New Democratic Party in 1972. For instance, in 1970 the Social Credit convention approved a resolution urging the establishment of a crown corporation to provide life insurance,¹² and at its convention the following year it was reported that "rank and file B.C. Social Creditors came close to demanding a government run car insurance scheme but backed off after Attorney-General Les Peterson appealed to them for more time to study the issue."¹³ However, when the bill to establish the Insurance Corporation of British Columbia came before the legislature, the Social Credit MLAs voted against the bill.¹⁴

The insurance companies and many other groups as well as some individuals were opposed to the establishment of a

government owned automobile insurance company. In January 1972, Mr. Gardom (Liberal MLA - Point Grey) offered his reasons for preferring private sector insurance companies when he said:

I favour ... very much private carriers over the public because I believe in free competitive enterprise. But it's got to be free and it's got to be competing, and it's got to be enterprising This situation that we have here, the situation that has shown itself just like a sore in the business world in so far as the insurance industry is concerned, is that it is not doing that. What we definitely need ... is less government, not more government.... What we should do is bring the insurance companies to task. The Honourable Attorney General has the power to do it. This Legislative Assembly has the power to do it.¹⁵

Mr. Gardom also expressed concern that if the government took over automobile insurance it might be just a stepping stone for further penetration into other areas of insurance. In addition, he was concerned that an eventual government monopoly on insurance would deny people employment in the insurance field outside the government, and he felt this would be a retrogressive step. He questioned the NDP's trust in the Social Credit Government to bring in and run government insurance.¹⁶

On the same date that Mr. Gardom argued against government owned insurance, Mr. Strachan (NDP MLA - Cowichan-Malahat) argued that monopoly doesn't belong in private hands.¹⁷ Mr. Hartley (NDP MLA - Yale-Lillooet) pointed out that such a large number of insurance companies each with its president, board of directors, officers, adjusters,

policies, and so forth could not help but be an inefficient industry. He recommended a government insurance company similar to that operated in the province of Saskatchewan which had benefitted the people of that province by reduced rates, increased coverage, and the money from the insurance company was invested in Saskatchewan and not invested in other parts of the world.¹⁸

When the bill to create ICBC was being discussed in the legislature on March 5, 1973, the Government pointed out that even though the Liberals had been in power in Saskatchewan for eight years and had the opportunity to dismantle the government insurance company they had not for it was providing a service for the people of Saskatchewan that the public wanted and needed.¹⁹ The Minister of Highways, Mr. Strachan, recounted that the Liberal minister in charge of the Saskatchewan government automobile insurance when asked for his comments about automobile insurance had replied that:

It is obvious that motorists in this province would have had to pay an additional \$5 million for the same coverage had we used the system in effect in other provinces. Ladies and gentlemen, I am an advocate of private enterprise but I can't ignore this fact. I would suggest to the auto insurance industry that in their continued attack on the Saskatchewan plan they are taking the wrong approach. They are simply not on valid ground in their criticism of the Act and its administration.²⁰

The rationale behind the formation of the Insurance Corporation of British Columbia was basically to correct the abuses of the private automobile insurance industry and to

fulfill a policy commitment of the New Democratic Party. Even though it was argued that the private sector insurance industry could be brought to task by the government, the government had not, prior to 1972, corrected the major abuses by the industry that were recommended by the Royal Commission on Automobile Insurance. The New Democratic Party argued the merits of government owned automobile insurance on the basis of the successful operation of the government owned insurance company in Saskatchewan.

Structure and Operation

The Insurance Corporation of British Columbia was incorporated as a Crown corporation under the Insurance Corporation of British Columbia Act, 1973, and it was assented to on April 18, 1973. Under this Act, the Insurance Corporation of British Columbia became an agent of Her Majesty in right of the Province.²¹

According to the ICBC Act, 1973, "The minister shall be the president and chairman of the board of the corporation."²² Between 1973 and 1978 a minister was both president and chairman of the board of ICBC. This stipulation was changed by the Government in 1977 to read: "The Lieutenant-Governor in Council shall designate one of the directors as president and chairman of the board."²³ Even though the Act specifies one director as both president and chairman of the board, in practice since 1978 there have been two directors appointed - one as president of the corporation and one as

chairman of the board of the corporation. Effective March 1, 1978, the Lieutenant-Governor in Council appointed Mr. Gillen as Chairman of the Board of the Insurance Corporation of British Columbia and Mr. Sherrell as its President.²⁴

The Civil Service Act does not apply to the officers and employees of the corporation,²⁵ and the Companies Act does not apply to the corporation except where stipulated in the Act; however, the cabinet may, by order, instruct that the Companies Act or any portion to apply to the corporation.²⁶

The mandate given to the Insurance Corporation of British Columbia under the Insurance Corporation of British Columbia Act, 1973, includes, among other stipulations, that it is the function of the corporation and it has the power and capacity:

- (a) subject to the approval of the Lieutenant-Governor in Council to engage in and carry on, both within and without the Province, the business of insurance and reinsurance in all its classes;²⁷

By the terms of the Automobile Insurance Act, Section 8, the Insurance Corporation of British Columbia became the sole insurer of automobiles.²⁸

Other powers of the corporation include the ability to undertake medical rehabilitation and research programs.²⁹ This Act also gives the corporation the power of expropriation, and it states:

It is the function of the corporation and it has the power and capacity ... to acquire by purchase or any other means, including expropriation, and hold as owner or tenant or otherwise, or to take options on, for its own use and benefit, real property....³⁰

Certain areas of financial accountability are identified in the ICBC Act, 1973. For example, the minister responsible for the Insurance Corporation of British Columbia is required to present an annual report of its operations and a financial statement.³¹ In 1974, section 18 was expanded to include the stipulation that the corporation is to file with the Superintendent of Insurance each year an annual report, and the Comptroller-General is given the authority to inspect the records whenever he considers it necessary. The Minister of Finance is given permission to instruct the Comptroller-General to examine and report to the Treasury Board on the financial or accounting operations of the corporation.³²

If the corporation accumulates a surplus of funds, the cabinet may pass an order appropriating this money in amounts equal to what it would have paid in corporate income taxes or additional amounts, provided that the company retains a working capital of \$10 million or reserves equal to 125 per cent of liabilities, whichever is greater.³³ If, on the other hand, liabilities exceed assets, the cabinet may direct that there be paid to the corporation out of the Consolidated Revenue Fund either the amount or estimated amount of such excess.³⁴ In other words, the government will be enabled to subsidize the corporation if it is in a deficit position from current revenues or revenue surplus funds.³⁵

The corporation's reserves may be invested in securities permitted by the Insurance Act or in investment approved by the cabinet.³⁶ The corporation will pay all provincial taxes except corporate income tax. By cabinet order, the government can direct the company to pay grants to municipalities in lieu of taxes.³⁷ By subsequent approval of the cabinet, the corporation has the power to borrow on the open market, from the government, or by bank overdraft subject to provincial guarantees, and it has the power to issue bonds and debentures.³⁸

By regulation, under the Automobile Insurance Act (AIA), the plan of automobile insurance is administered as a Fund. The annual reports of the Insurance Corporation of British Columbia state that:

The AIA Fund is by legislation a separate entity for financial accounting purposes. A statement showing the results of the operation of the Fund is included with the financial statements of ICBC and the balance of the Fund, which represents its accumulated net operating position, is reflected in the balance sheet of ICBC. The Fund consists of the revenues and expenses attributable to the AIA Fund operations. All assets and liabilities are held by ICBC.³⁹

The determination of rate structure for ICBC is set in the following way: the actuarial department of ICBC initially gathers together all the data that relates to rates and it projects rates for the next year. The actuarial department recommends the rate structure to management and management sends this rate structure to the board of directors for approval. The rates for third party compulsory liability insurance (\$100,000.00) must be approved by the cabinet.

However, any extension of this third party liability and all other insurance rates of the Insurance Corporation of British Columbia are set by the corporation.⁴⁰

On occasion, charges have been made of political interference into the affairs of the Insurance Corporation of British Columbia. In 1978, the president of the Insurance Corporation of British Columbia, Mr. Sherrell, tried to prevent direct intervention by MLAs into the operation of ICBC. However, when Mr. Sherrell appeared before the legislature's Committee on Crown Corporations, he was attacked by three government MLAs and Liberal Leader Gordon Gibson for refusing to talk to MLAs on the telephone about problems brought to them by constituents. On the other hand, Mr. Cocke (NDP MLA - New Westminster) defended Mr. Sherrell's position that MLAs should take any complaints to the cabinet minister responsible for ICBC and not directly to Mr. Sherrell.⁴¹

There is reason to believe that a crown corporation may be used by politicians to shoulder the blame for unpopular policies of the government. In many instances the good news of the Insurance Corporation of British Columbia is announced by the minister while the bad news is announced by an ICBC official. For instance, Mr. Strachan, the minister responsible for ICBC, announced on October 15, 1974 that motorists would pay less for their 1975-1976 automobile insurance.⁴²

Later, on July 14, 1975, Mr. Strachan warned the public of

an increase, but he did not say how much.⁴³ On the other hand, on October 11, 1975, the Insurance Corporation of British Columbia's vice-president and general manager was the person who announced the amount of the increase.⁴⁴

A change in government from NDP to Social Credit did not alter the manner in which the announcements were made concerning ICBC. During the election campaign of 1975, Mr. Bennett, Leader of the Social Credit Party, promised that if the Social Credit Party became the government, the Insurance Corporation of British Columbia would operate on a business-like basis with no subsidies.⁴⁵ After the election of December 11, 1975, the new Social Credit Government made a decision to require ICBC to operate on a break-even basis. After this decision was made, it was reported that Mr. McGeer, the president and minister responsible for ICBC, insisted that ICBC would be left alone to operate as a business and to set rates on actuarial principles. Mr. McGeer said: "The intention is to have ICBC run as an insurance corporation and not as a political arm of government."⁴⁶ When the rate increases were announced for 1976, the general manager of ICBC made the announcement. Two days after the rate increases were announced, rates which Mr. McGeer insisted were set "solely "in accord with actuary information,"⁴⁷ Premier Bennett commented that the rates for drivers under 25 were too high and hoped that ICBC would find ways to decrease those premiums in 1977. In addition, Mr. McGeer told the legislature that if the accident rate remained as low as

it was for the rest of that year, there would be money left over for rebates to safe drivers. According to the rules set out by Mr. McGeer, the decision should be made by ICBC as a business - ICBC had made no such decision. If Mr. McGeer declined to announce the 1976 rate increases to show that ICBC was politically independent, it follows that he should not be announcing possible rate reductions for 1977.⁴⁸

Following both a change in the president on March 1, 1978 and the minister responsible for ICBC on December 5, 1978, the reporting of ICBC policies remained the same. For instance, in December 1978, the president of ICBC announced a ten per cent increase in automobile insurance rates. At the same time, Deputy Premier Grace McCarthy, the new minister responsible for ICBC, announced that the provincial government intended to eliminate discrimination on the basis of sex, age, and marital status by ICBC which would come into effect in 1980. The minister said the main beneficiaries of the changes would be young people who currently pay higher rates because they belong to a group with a high accident rate.⁴⁹

Although the Insurance Corporation of British Columbia Act, 1973, allows for subsidization by the government in certain instances, the Honourable Robert Strachan, Minister of Transport in 1973 said when he introduced legislation to set up the Insurance Corporation of British Columbia that government automobile insurance would be completely self sustaining with no subsidization from the provincial treasury.⁵⁰ In 1974, however, the Government amended the

Insurance Corporation of British Columbia Act to allow for certain subsidization of ICBC which was subject to cabinet approval and allowed the corporation a subsidy to come from gasoline tax.⁵¹ This money was never transferred to the Insurance Corporation of British Columbia.⁵²

In 1977, when the Insurance Corporation of British Columbia's monopoly on non-compulsory automobile insurance was removed by the Government, it allowed the private sector insurance companies to sell automobile insurance above the compulsory minimum coverage for British Columbia's drivers. Compulsory rates were to be determined by cabinet; non-compulsory rates were to be determined by ICBC and the private sector.⁵³ When Mr. McGeer, President and Chairman of ICBC and minister responsible for ICBC, tabled the Automobile Insurance Amendment Act, 1977, he said the main thrust of the amendment was to make it clear that private insurance companies have a role to play in British Columbia and to establish the same rules for ICBC as for private insurers.⁵⁴

With this change in ICBC's mandate, the agents, body shop men, and the people on the inside said that the government would destroy ICBC by permitting the private insurance industry to compete with it on equal grounds.⁵⁵ Mr. Sherrell, President of ICBC, said that the private insurance companies could compete with ICBC by "creaming" certain accounts; that is, they could select customers through a variety of ways

with the least probability for loss and leave ICBC with a diluted portfolio. As a result, ICBC would then have to increase its rates to cover the loss of the better drivers, the private sector insurers could follow suit for the better clients, and the end result would be additional premiums for all motorists.⁵⁶

After the private insurers were allowed to sell automobile insurance, a conflict of interest arose when insurance agents were permitted to sell both ICBC policies and private insurance companies' policies. Agents are required to represent the insurance company's best interest, not necessarily the consumer's interest. If an agent sells insurance for a number of companies, there is the question of where his loyalty rests - with the private insurance company or with the public insurance company.⁵⁷

After March 1, 1980, the rate structure of ICBC will be changed and together with this change other regulations will affect all automobile insurance companies doing business in British Columbia. This came about as a result of a directive by the government to ICBC and the proclamation of an Act. In December 1978, the government's directive to ICBC "requested the Corporation investigate means of removing those factors used in determining auto insurance rates over which an individual has no control. These factors are, essentially age, sex, marital status, and possibly territory."⁵⁸ With the proclamation of the Automobile

Insurance Non-discrimination Act on July 31, 1979, the rate structure of the automobile insurance companies will have to change when the Lieutenant-Governor in Council makes regulations providing for phasing section 2 into effect over time. Section 2 states: "Non insurer shall provide automobile insurance with a premium, tariff, rate or condition of coverage that discriminates on the basis of (a) age, (b) sex, (c) marital status, or (d) region of the Province."⁵⁹

As a result of the directive and the Act of 1979, the Insurance Corporation of British Columbia set up a means by which to implement the government's policy; it is called the Fundamental Auto Insurance Rating (FAIR) program to become effective in stages which start on March 1, 1980, and to be completely implemented by March 1, 1985.⁶⁰ An analysis of the effect the FAIR program is having on the automobile insurance industry will be provided in the next section.

In sum, the Insurance Corporation of British Columbia is a wholly owned entity of the government of British Columbia. Two ministers sit on its board of directors. The corporation's accountability to the legislature and to the people is effected in part through its annual financial report which the minister responsible for ICBC places before the legislature for its scrutiny. Borrowings are to be backed by the government. However, the Insurance Corporation of British Columbia has investments in excess of half a billion dollars in British Columbia and the rest

of Canada.⁶¹ The mandate given to ICBC changed over the years; consequently, ICBC no longer has a monopoly on the issuance of automobile insurance. However, ICBC has still retained a monopoly on the issuance of the compulsory portion of automobile insurance.

Public Interest

The Insurance Corporation of British Columbia was established by the New Democratic Government in order to correct some of the abuses of the private sector insurance industry as well as to carry out the policy of the New Democratic Party in regard to automobile insurance. Evidence has been presented which shows that the private automobile insurance companies were not competitive and they, together with the laws regarding automobile insurance, did not protect all of the people of British Columbia against losses from automobile accidents. Now that the Insurance Corporation of British Columbia has been in operation since 1973 for general insurance and March 1, 1974 for automobile insurance, an examination of how ICBC has performed will now be reviewed.

An argument used by the NDP Government as one of the reasons for establishing ICBC was based on the premise that a publicly owned insurance company would lower insurance rates for the B.C. motorist. Initially, ICBC's automobile insurance rates were set lower than the private insurance companies' rates. A comparison of the rates was given to the media by the

Insurance Corporation of British Columbia on October 15, 1974, and a condensed version of this comparison is given in Table I. It is to be noted that the rates shown for cities outside of British Columbia are those published by the Canadian Underwriters' Association in July 1974, and the coverage is for a 1973 Ford Mustang, \$100,000 third party liability, accident benefits, \$100 deductible collision, \$25 deductible comprehensive.⁶²

COMPARISON OF RATES

TABLE I

Area	Pleasure only over 25 driver	Driven to and from work	Occasional use by under 25 driver
Victoria	\$ 98	\$115	\$125
Vancouver	122	149	169
Prince George	163	182	232
Edmonton, Alta.	180	204	337
Toronto, Ont.	194	222	375
Montreal, Que.	275	316	534

Source: Insurance Corporation of British Columbia, Public Information Department, Autoplan '75 Details (Vancouver: Insurance Corporation of British Columbia, 1974), October 15, 1974

There is no doubt from the above figures that the rates on automobile insurance in British Columbia in 1974-1975 were substantially lower than those in regions of Canada which did not have government insurance schemes.

The introductory rates were set at the five-year accident-free prime private industry level of 1972-1973. Besides setting the rates at this low level, ICBC established the concept of a driver insurance certificate so that drivers as

well as owners carried insurance. The rationale behind this was that motorists, not cars, cause accidents. The driver certificate was vital in administering the new concept introduced by ICBC - those who violate traffic safety regulations should be required to pay an insurance surcharge appropriate to the increased traffic hazard they create.⁶³

In 1974 and 1975, collision coverage was mandatory for all vehicles registered in 1967 or later and a system of equalization discounts was set up to encourage owners of older vehicles to also take out collision insurance.⁶⁴ These equalization discounts resulted in a refund program under which 26,000 motorists received cheques totalling \$835,000.⁶⁵

Due to escalating prices, the increased number of collision repairs, and a number of other factors, ICBC was experiencing a loss.⁶⁶ To help defray losses, legislation was enacted in 1974 to amend the ICBC Act in order to allow for the subsidization of ICBC with up to ten cents per gallon of the provincial tax on gasoline.⁶⁷ Subsequently, on October 17, 1975, the executive vice-president and general manager of ICBC announced that motorists would be paying 19 per cent more for their automobile insurance the following year.⁶⁸

During the 1975 election campaign, Mr. Bennett accused the New Democratic Party of a financial coverup and said that the Insurance Corporation of British Columbia would need large transfusions of public money. However, Mr. Bennett

did not propose to dismantle the corporation as a means of dealing with the problem.⁶⁹ With the defeat of the NDP Government in 1975, the Social Credit Government brought about many drastic changes in ICBC. Two specific actions were now taken by the new Government: \$181 million was transferred to ICBC and a new rate structure was imposed.

It was reported on January 9, 1976 that Premier Bennett, Finance Minister Evan Wolfe and Education Minister Pat McGeer said that ICBC had a \$181 million debt.⁷⁰ In fact, the Automobile Insurance Act Fund showed a loss of \$34,179,000 for 1975 and a loss of \$144,181,000 for 1975-1976 for an accumulated deficit of \$178,360,000 on February 29, 1976.⁷¹ A large portion of this amount was made up of reserves which should be set aside to pay claims which have been reported but not yet settled and another portion of that money was for claims which had not even been reported, but were expected. By the time the actual bills came in, ICBC would have more funds from new premiums which were to cover a new insurance year.⁷² On April 1, 1976, figures tabled in the legislature by ICBC president and minister responsible for ICBC, the Honourable Pat McGeer showed that on March 30, 1976, ICBC had \$151.5 million in short-term investments and \$17.6 million in long-term investments. Mr. Dave Stupich (NDP MLA - Nanaimo) said that these figures proved that ICBC did not need the \$181 million because it had a large amount of premium income and the \$169.1 million would cover

the corporation's costs for about five months.⁷³ On the other hand, an executive of ICBC said that it is a generally accepted accounting principle for insurance companies to have a certain percentage of money in a fund; in the case of ICBC, this amounted to approximately \$181 million.⁷⁴

In order to rectify the deficit position of ICBC, one of the first acts of the new Government was to announce that it would more than double automobile insurance rates under the Insurance Corporation of British Columbia. Premier Bennett emphasized that the increased rates only reflected that ICBC was trying to "not make a profit, not to pay back old debts, just to pay the costs in the year the insurance coverage is there."⁷⁵ On the other hand, the minister responsible for ICBC stated: "Premiums in the coming year must be high enough to cover the full cost of the Company's operations and must be sufficient to commence the retirement of the accumulative operating deficit."⁷⁶

Table II gives an indication of the rates in 1977. This table is a condensed version of three tables of premium comparisons presented in connection with the ICBC media presentation, November 26, 1976, and it is for a 1976 Ford Granada with the following coverage: liability \$200,000 inclusive, collision \$100 deductible, comprehensive \$50 deductible.⁷⁷

COMPARISON OF RATES

TABLE II

Area	Pleasure, not driven to work	Under age 25, female	Under age 25, single male
Vancouver	\$288	\$434	\$ 630
Toronto	326	490	819
B.C. South Interior	224	327	469
B.C. North Interior	238	348	485
Rural Northern Ontario	272	420	795
Rural Northern Alberta	194	333	534
Rural Alberta	264	448	752
Rural Ontario	359	511	1088
Regina	219	219	317
Winnipeg	192	234	234

Source: Insurance Corporation of British Columbia, Public Information Department, Premium Comparisons (Vancouver: Insurance Corporation of British Columbia, 1976), November 26, 1976.

This table reveals that Vancouver's rates were substantially higher than public insurance of Regina and Winnipeg and slightly lower than Toronto's private insurance rates for pleasure driving. Toronto's automobile insurance rates were considerably higher than Vancouver's for the other two categories. The automobile insurance rates for 1976 were slightly higher than those for 1977. Mr. Penhall, Public Information Manager of the Insurance Corporation of British Columbia, said "The ICBC rates for 1976 were roughly comparable to those of private sector insurance companies.⁷⁸ It was reported that in Vancouver the rates for 1976 were two to three and a half times higher than those in 1975 for equivalent coverage.⁷⁹

ICBC assets during 1977-1978 increased from \$582.1 million to \$673.8 million. Most of that was in the bank in

the form of cash for \$49 million of this amount, short-term deposits of \$393.6 million and bonds with a market value of \$121.5 million.⁸⁰ The previous year 1977, when the increased premium payments came in, the corporation set up a safe driving discount reserve of \$52 million.⁸¹ The reserve was later abolished since ICBC decided the safe driving discount reserve was not necessary because premium revenue alone was more than sufficient to finance the discounts. Instead of returning the money to the motorists, a "rate stabilization discount reserve" was set up.⁸²

The question might be asked as to whether it was in the public interest for the Government to initially set rates low and later for a different Government to set the rates so high. Initially the NDP Government set the premium rates low only to find ICBC was faced with a large deficit. This Government then proposed to increase rates and subsidize ICBC through a gas tax; however, it was defeated before these measures could be implemented. As soon as the Social Credit came to power, that Government immediately set the rates to the other extreme. ICBC will now be using these excess profits to help finance its new FAIR program which goes into effect on March 1, 1980. Mr. Sherrell, President of the Insurance Corporation of British Columbia, estimated that FAIR will require \$55 million from ICBC's rate stabilization reserve, which stood at \$61 million in August 1979, before the program becomes self sufficient.⁸³

In conjunction with the rate increases, the Government removed the expensive collision coverage from the compulsory package. In June 1978 it was reported that there was a dramatic 50 per cent decline in claims which was attributed to the coverage change that accompanied the doubling and tripling of rates. It seems that the Government's action in removing compulsory insurance in order to achieve book profits was not fulfilling one of the purposes for which ICBC was formed - the principle of full public protection.

Motorists who were forced through financial reasons to drop collision coverage do not have complete protection nor does the general public who might suffer as a result of a car being on the road that was made unsafe from an accident.⁸⁴ On the other hand, the Corporation has argued that the elimination of collision coverage as a compulsory requirement exposed motorists to a very minimal amount of risk because in the vast majority of cases the damage to a vehicle involved in an accident was not functional but more of a cosmetic type of damage.⁸⁵

The subsidization of young drivers' rates at the expense of other motorists has been a controversial issue. There are statistics available to show that young drivers have more accidents than mature drivers; however, both the NDP Government and the Social Credit Government have subscribed to the subsidization of young drivers' rates.

One feature of the new FAIR program is the elimination of

sex and marital status as discriminatory factors. This will benefit an estimated 215,000 male vehicle operators under 30 years of age and their average premium will be reduced by almost 29 per cent.⁸⁶ Critics say that this new FAIR scheme was designed to attract votes for the Government. For instance, it was reported that the managers of the B.C. Branch of the Royal Insurance Company and of the Insurance Bureau of Canada said the provincial government was not basing its insurance policies on sound insurance practice.⁸⁷

The fact that Deputy Premier Grace McCarthy, the minister responsible for ICBC, announced that the main beneficiaries of the new FAIR program would be the young people was seen as a measure designed to capture the young people's vote in the forthcoming election.⁸⁸

There are criticisms of the new FAIR scheme whereby a \$300 penalty is to be assessed for accidents. On one hand it is argued by the NDP, for instance, that this penalty would be a more severe penalty for the poor than it would be for the rich and this \$300 penalty may lead to more court cases over who is at fault in an accident which would take ICBC away from the no-fault insurance concept.⁸⁹ On the other hand, the Corporation has stated that the method of determining fault has not changed and the \$300 penalty is no more of a hardship than what is currently in effect; that is, the person who is at fault would lose the safe driver discount which could amount to approximately the same amount as the \$300 penalty paid over a three year period. The new

system is based on the premise that those who cause accidents pay a penalty.⁹⁰ It was pointed out by an official of ICBC that the penalty takes away from the basic concept of insurance; that is, if you have automobile insurance and you are involved in an accident, it is expected that your insurance company will pay since that is the whole rationale behind purchasing insurance.⁹¹

There is the question whether the Government's policy of allowing the private sector automobile insurance companies to compete with the Insurance Corporation of British Columbia is in the public interest. The possibility of the private sector insurance companies only insuring the low risk drivers and leaving the high risk drivers for ICBC has already been discussed. In February 1979, Mr. Sherrell, President of the Insurance Corporation of British Columbia, stated the position of the Corporation vis a vis the private sector insurance companies when he said:

In our view it is not possible for anyone to fairly and equitably compete with the corporation for matching or bettering the service and remuneration provided to the motorist. If there was no ICBC and the private companies were to pay the same losses - \$343 million - they would immediately need an additional \$135 million in premiums from B.C. motorists just to break even.⁹²

It would seem that the private insurers would not return to British Columbia unless they projected a profitable market, and private insurers showed an ever increasing presence in British Columbia. Ten automobile insurance companies returned after the Government's new policy was

announced in 1977 which permitted private insurers to sell non-compulsory automobile insurance.⁹³ It was estimated in 1979 that private insurers would place \$30 to \$40 million of the \$150 million expected to go towards optional coverage and they expected to capture a larger portion of the car insurance business since renewal dates had become staggered. At this time, some agents said that with the renewal dates spread over the year this would give them more time to extol the services they could offer. Mr. Penhall, manager of Public Information for ICBC, said that everyone, including the agents was worried about fair competition. For instance, Mr. Kassell, President of the Insurance Agents Association of British Columbia, pointed out that ICBC's safe-driving discount goes with a vehicle's licence plate and is not given to individual drivers. Since private insurers could give a safe-driving discount to the individual, they could offer bigger discounts than ICBC could.⁹⁴

There was one factor in particular that prompted the private automobile insurers to leave the province of British Columbia; that factor was the proclamation of the Automobile Insurance Non-discrimination Act which provides for the eventual elimination of age, sex, marital status, and geographic location as a factor of discrimination. This Act was proclaimed on July 31, 1979. Within seven months, nine of the ten automobile insurance companies which had come back after 1977 left the province of British Columbia while

one private insurance company remained. Mr. B. Penhall, Manager of Public Information for ICBC, gave reasons why it would be difficult for private insurers to compete in British Columbia when he said:

Private insurance companies are having and will continue to have a very difficult time returning to the public the kind of money that ICBC does. We have over the last three years returned to the public 90¢ in claims payments for every dollar of premium received. The private insurance companies world wide have never been able to return any more than 70¢.⁹⁵

Summary

This case study has examined a crown corporation, the Insurance Corporation of British Columbia, which supplies general and automobile insurance to residents of British Columbia. The rationale behind the formation of ICBC stems from two important factors which are interrelated: (1) the private sector insurance companies were not adequately serving the people of British Columbia and (2) the NDP adopted a policy to supply the automobile insurance needs of the people of British Columbia with a non-profit, universal government automobile insurance scheme when it became the government.

The provincial Liberals and Progressive Conservatives opposed the establishment of a public automobile insurance industry in 1973 on the basis that the private automobile insurance industry could be brought to task by regulations, a government owned insurance company would only create another bureaucracy, and the view that private enterprise was better than public enterprise for this type of business.

Although the Social Credit Party had, prior to this time, endorsed the establishment of a government owned insurance company at one of its conventions, all Social Credit MLAs together with the other opposition MLAs voted against the bill to establish the Insurance Corporation of British Columbia.

Basically, the Government rationalized its creation of the Insurance Corporation of British Columbia on the basis of its perception of how to serve the public interest insofar as the provision of universal automobile insurance coverage to the people of British Columbia was concerned.

Like the federal crown corporations, the Insurance Corporation of British Columbia operates under a statute of the British Columbia legislature. It is wholly owned by the Province of British Columbia and its directors are appointed by the Lieutenant-Governor in Council. The board is composed of a combination of people from the private sector and cabinet ministers (one of whom is the minister responsible for ICBC). Initially the cabinet minister responsible for ICBC was also the President and the Chairman of the Corporation. This was subsequently changed whereby the Lieutenant-Governor in Council was to designate one of the directors as president and chairman of the board; however, the requirement that ministers be appointed to the board did not change. There are still two ministers on the board of the Insurance Corporation of British Columbia. There

are arguments both for and against the practice of having ministers on the board of a crown corporation. If the intention of the government is to give a crown corporation autonomy to operate a corporation freed from direct political interference, in the same manner as a private enterprise, then ICBC is not necessarily given this freedom.

While ICBC was initially given the mandate to be the only insurance company with the authority to sell automobile insurance in the province of British Columbia, this was subsequently changed by the Government in 1977. After this time, ICBC remained the only insurance company with the authority to sell compulsory automobile insurance, however, the private sector corporations were now allowed to sell automobile insurance above and beyond this compulsory requirement.

An examination of the manner in which the Insurance Corporation of British Columbia is accountable to the legislature and the public reveals that a minister responsible for ICBC reports to the cabinet. There are such reporting devices as an annual report which the minister responsible for ICBC places before the legislature for its scrutiny. Also, the Comptroller-General is given the authority to inspect the records of the corporation.

Certain criticisms, of course, can be made about the structure and operations of ICBC. There is one particular area which deserves some comment and that is in the area of how rates are determined. Presently, compulsory insurance

rates are approved by the cabinet and all other rates are set by the corporation. This method does not allow for any public input into the decision making process, and it seems that this might be an area in which an improvement in the accountability to the public could be strengthened.

From the standpoint of the benefits the public derives from the services offered by the Insurance Corporation of British Columbia, it is found that everyone in British Columbia is now protected financially against automobile related accidents and this includes passengers, bicyclists, and pedestrians. All vehicles are insured by the Insurance Corporation of British Columbia, and a licence to drive and the vehicle licence are now contingent upon the purchase of a basic automobile insurance policy. Therefore, it would seem that the services provided by the Insurance Corporation of British Columbia serve the majority of the people of British Columbia.

The following chapter examines a holding company, British Columbia Resources Investment Corporation, which stands out in sharp contrast to the previous two case studies.

FOOTNOTES TO CHAPTER III

¹The Co-operative Commonwealth Federation (CCF) became the New Democratic Party (NDP) in 1961.

²British Columbia, Legislative Assembly, Debates, 27 January 1972 (Victoria: Queen's Printer, 1972), p. 114.

³British Columbia, Royal Commission on Automobile Insurance, Report by the Commissioners, (Wootton, Chairman) (Victoria: Queen's Printer, July 30, 1968), p. 381.

⁴British Columbia, Legislative Assembly, Debates, 27 January 1972 (Victoria: Queen's Printer, 1972), p. 114.

⁵British Columbia, Royal Commission on Automobile Insurance, Report by the Commissioners, p. 381.

⁶Ibid.

⁷Ibid., pp. 606-609.

⁸Ibid., p. 729.

⁹British Columbia, Legislative Assembly, Debates, 5 March 1973 (Victoria: Queen's Printer, 1973), p. 999.

¹⁰Insurance Corporation of British Columbia, "President's Report" (Vancouver: Insurance Corporation of British Columbia, 1975), p. 3.

¹¹Soren Bech, NDP researcher, February 14, 1980, information from policy papers.

¹²British Columbia, Legislative Assembly, Debates, 5 March 1973 (Victoria: Queen's Printer, 1973), p. 999.

¹³Ibid.

¹⁴Ibid.

¹⁵British Columbia, Legislative Assembly, Debates, 27 January 1972 (Victoria: Queen's Printer, 1972), p. 112

¹⁶Ibid., p. 111.

¹⁷Ibid., p. 112

¹⁸Ibid., pp 109-110.

¹⁹ British Columbia, Legislative Assembly, Debates, 5 March 1973 (Victoria: Queen's Printer, 1973), p. 1002.

²⁰ As quoted in British Columbia, Legislative Assembly, Debates, 5 March 1973 (Victoria: Queen's Printer, 1973), p. 1002.

²¹ British Columbia, Laws, Statutes, etc. Insurance Corporation of British Columbia Act, 1973, Chapter 44 (Victoria: Queen's Printer, 1973), Sec. 10 (2).

²² Ibid., Sec. 2 (1).

²³ British Columbia, Laws, Statutes, etc. Insurance Corporation of British Columbia, Amended, September 17, 1977 (Victoria: Queen's Printer, 1977), Sec. 15.

²⁴ Insurance Corporation of British Columbia, Annual Report (Vancouver: Insurance Corporation of British Columbia, 1978).

²⁵ ICBC Act, 1973, Sec. 3 (4).

²⁶ Ibid., Sec. 31.

²⁷ Ibid., Sec. 5.

²⁸ British Columbia, Laws, Statutes, etc., Automobile Insurance Act, Chapter 6 (Victoria: Queen's Printer, 1973), Sec. 8.

²⁹ ICBC Act, 1973, Sec. 5, and 26.

³⁰ Ibid., Sec. 5 (1)

³¹ Ibid., Sec. 18.

³² British Columbia, Laws, Statutes, etc., Insurance Corporation of British Columbia, Amendment Act, 1974, Chapter 87 (Victoria: Queen's Printer, 1974), p. 543.

³³ ICBC Act, 1973, Sec. 19.

³⁴ Ibid., Sec. 21.

³⁵ Vancouver Province, February 17, 1973.

³⁶ ICBC Act, 1973, Sec. 22.

³⁷ ICBC Act, 1973, Sec. 11

³⁸ Ibid., Secs. 14 and 15.

³⁹Insurance Corporation of British Columbia, Annual Report (Vancouver: Insurance Corporation of British Columbia, 1979).

⁴⁰Telephone conversation with Mr. B. Penhall, Manager, Public Information, Insurance Corporation of British Columbia, April 21, 1980.

⁴¹British Columbia, Official Report of the Committee on Crown Corporations, September 28, 1978 (Victoria: Queen's Printer, 1978), pp 4 and 5.

⁴²Insurance Corporation of British Columbia, Public Information Department, Autoplan '75 Details, (Vancouver: Insurance Corporation of British Columbia, October 15, 1974).

⁴³From the Office of the Honourable Robert M. Strachan President and Chairman, Insurance Corporation of British Columbia, Minister of Transport and Communications, July 14, 1975, Press Release (Company File).

⁴⁴Vancouver Province, October 11, 1975.

⁴⁵Vancouver Province, December 30, 1975.

⁴⁶Vancouver Province, May 19, 1976.

⁴⁷Ibid.

⁴⁸Ibid.

⁴⁹Vancouver Express, December 13, 1978.

⁵⁰British Columbia, Legislative Assembly, Debates, 5 March 1973 (Victoria: Queen's Printer, 1973), p. 1001

⁵¹ICBC Amendment Act, 1974, Sec. 21.

⁵²Globe and Mail, November 10, 1976.

⁵³British Columbia, Laws, Statutes, etc., Automobile Insurance Amendment Act, 1977, Chapter 66 (Victoria: Queen's Printer, 1977).

⁵⁴Vancouver Sun, July 8, 1977.

⁵⁵Vancouver Sun, March 1, 1978.

⁵⁶B.C. Business, Vol. 7, No. 2, February 1979, pp.10-12.

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CHAPTER IV

BRITISH COLUMBIA RESOURCES INVESTMENT CORPORATION

CASE STUDY

The third and final case study of public enterprises in British Columbia examines the British Columbia Resources Investment Corporation, a shared enterprise. The following discussion will set out the background to the creation of the corporation, its structure and operation, and the manner in which it serves the public interest.

The British Columbia Resources Investment Corporation was created by the Social Credit Government in 1977. Somewhat ironically, it was a measure introduced in the interest of promoting "free enterprise". Nevertheless, it created a holding company for a number of publicly owned corporations. It attempted to encourage individual participation through share distribution while maintaining some government ownership.

History and Rationale Behind the Formation

This case study is concerned with the way in which certain crown corporations and other public holdings were converted into a government holding company, British Columbia Resources Investment Corporation (BCRIC). The British Columbia Resources Investment Corporation was incorporated in 1977 by the Social Credit Government in order to dispose of certain crown corporations and share holdings that were

acquired by the previous New Democratic Government during the 1972-1975 period. These crown holdings acquired by the NDP Government, which were later to become part of BCRIC, were: 81 per cent of the shares of Canadian Cellulose Company Limited, approximately 10 per cent of the shares of West Coast Transmission, and the wholly owned Kootenay Forest Products Limited and Plateau Mills Limited. A short history of these holdings that were to become a part of BCRIC will be given in addition to the rationale behind the acquisition of these holdings.

On April 18, 1973, British Columbia Cellulose Company Limited became a crown corporation,¹ and this company acquired 79 per cent ownership of Canadian Cellulose, a subsidiary of Columbia Cellulose Company Limited (Colcel) on June 21, 1973. The government acquired its ownership by guaranteeing approximately \$70 million at 5 3/4 per cent interest.² In 1975 the Province of British Columbia acquired an additional two per cent of the common shares from the public.³

This move to guarantee the debt and assume controlling interest in Canadian Cellulose was brought about by the fact that more than 3,000 jobs were in jeopardy and nine million acres of tree farm land were to be transferred to Weyerhaeuser Canada Limited, an American based firm.⁴ The Social Credit and Liberal MLAs voted against the British Columbia Cellulose Company Act of 1973. The only two Progressive Conservative

MLAs in the legislature voted with the NDP. The Social Credit and Liberal spokesmen said that this venture would cost the taxpayers millions of dollars in losses. They warned that it could take all the capital available to the British Columbia Government to succeed and it would bring neglect in the financing of other essential government services.⁵

Resources Minister Robert Williams stated some reasons for the Government's entry into the Columbia Cellulose firm:

It was obvious no private company alone, no matter who they were, could solve the problems. It's not a matter of political ideology, it was just a thing for government involvement. The whole infrastructure of the area has to be changed; railways have to be built, forest tenures have to be changed, and timber has to be allocated for new sawmills. Only government can do these things which are necessary.⁶

Under foreign ownership the former Columbia Cellulose lost \$95 million between 1966 and 1972. However, in 1973, under government ownership the profits were \$12,318,000 and increased to \$50,866,000 in 1974.⁷ The profits in 1976 were \$26.1 million; in 1977 they were \$17.3 million, and \$6.8 million in 1978.⁸

Rather than approve the transfer of Plateau Mills to the International Telephone and Telegraph's Rayonier Corporation, in June 1973, Plateau Mills Ltd. was acquired by the Province of British Columbia through the British Columbia Cellulose Company Limited. Plateau's financial performance steadily improved since 1974 when it suffered a loss of \$87,000. This operation cost \$7.9 million, and it had a profit of \$68,000 in 1975,⁹ a profit of \$1,937,000 in

1976, a greater profit in 1977 of \$4,378,000, which increased to \$4,432,000 in 1978, and in 1979, Plateau employed approximately 330 full time employees.¹⁰

A petition had been circulated among the 500 employees of Kootenay Forest Products asking the Government to buy the operation as a result of the proposed sale of this firm to a foreign based corporation.¹¹ On February 28, 1974, this firm and Stafford Mills Division of the Eddy Match Company were purchased by the Province of British Columbia through British Columbia Cellulose Company for \$14,350,435. Thus, the British Columbia Cellulose Company acquired the right to an amount owing from Kootenay Forest Products of \$11,602,729 together with shareholder's equity at a cost of \$2,747,706.¹² Kootenay Forest Products received a non-interest bearing advance of approximately \$11.6 million from the Province of British Columbia in 1974. This advance was repaid in March 1978 out of the proceeds of an issue of common shares to the Province of British Columbia.¹³ In 1974-1975, the first year of operation after it was acquired by the Government, it showed a loss of \$2.9 million. In March 1978, according to the Honourable Evan Wolfe, Minister of Finance, Kootenay Forest Products had an accumulated \$3 million loss.¹⁴ The BCRIC Prospectus, however, shows that each consecutive year since 1975 Kootenay Forest Products has shown a profit: \$685,000 in 1976, \$837,000 in 1977, and \$3,896,000 in 1978.¹⁵

While the other government holdings in BCRIC are involved in the forest industry, Westcoast Transmission Company Limited is in the business of buying and transmitting natural gas. In 1973, the Government purchased slightly more than 10 per cent of the shares of West Coast Transmission Company Limited.¹⁶ This company is a very profitable business. In 1977, for instance, it reported a profit of \$42.8 million.¹⁷

All of these new public corporate ventures were making a profit when the Government changed in 1975, and they have continued to make a profit. Nevertheless, the Social Credit Government had committed itself to dismantle public corporations as a general policy upon taking office. The four holdings of Canadian Cellulose, Plateau Mills, Kootenay Forest Products, and West Coast Transmission were to become part of British Columbia Resources Investment Corporation. In addition to these holdings, the Government sold BCRIC a petroleum and natural gas licence covering 2.3 million acres in northeastern British Columbia.¹⁸ For the above mentioned holdings, the British Columbia Resources Investment Corporation paid the Government of British Columbia \$151,532,940 in the form of a demand note. The Government subsequently exchanged that demand note for 15 million common shares of the British Columbia Resources Investment Corporation.¹⁹

At the time the British Columbia Resources Investment Corporation was established, Premier Bennett stated that he

proposed BCRIC follow Social Credit policy of putting industry in private hands which would give British Columbians a chance "to make a voluntary investment in their province."²⁰ The following is an excerpt from Premier Bennett's speech when he presented the bill to establish the British Columbia Resources Investment Corporation for second reading in the legislature. It capsulates the reasoning Premier Bennett offered for establishing BCRIC:

This bill fulfills two very great commitments this party and the government made. One was to provide great opportunity for the people of this province to invest in their province and help get it moving again. The denationalization of some of the Crown corporations or companies in which the former government invested that were involuntary investments by the people of this province, the prime requisite for the investment being the philosophical commitment of that party and that government.... this bill ... in meeting our philosophical commitment, may be one of the few times we have in this Legislature this session, in which two different philosophies can clash over the best way for this province to develop and grow, and the best opportunity that can be developed for people and corporations to build this province.... Our commitment ... is that this province can only be developed and grow ... by government providing a climate and regulations allowing our resource companies to develop in a private way.²¹

○ The New Democratic Party MLAs opposed this bill and the establishment of the British Columbia Resources Investment Corporation on the basis that it would only allow the rich to benefit from the province's investment.²²

Before the BCRIC shares could be publicly sold, Premier Bennett changed his policy on the share distribution of BCRIC in which the government would hold the 15 million

shares. Prior to the provincial election in 1979, Premier Bennett introduced a scheme whereby the Government would give away five shares of BCRIC to each resident of British Columbia who was a Canadian citizen or applied for Canadian citizenship and who had lived in the province for more than one year. The "free shares" were expected to represent 80 per cent of the government's holdings in BCRIC. The corporation (BCRIC) also made available for sale additional shares with a limit of 5,000 per person to those who qualified and applied for free shares and wished to add to their holdings. They were to be sold at a price of six dollars, which was considered to be below the appraisal value.²³

Premier Bennett also intended that the distribution of the shares of BCRIC as a way not only of "privatizing" public corporations created by the NDP Government but also as an alternative measure to public ownership. If citizens could witness how those shares increase in value, they would better appreciate the benefits of individual rather than collective ownership.²⁴ In this regard, Premier Bennett stated:

Our government believes in personal economic freedom. It has constantly dedicated itself to providing greater investment and ownership opportunities for the individual ownership, not big-government ownership. For this reason the provincial government is undertaking the distribution of the shares it owns in the British Columbia Resources Investment Corporation. These shares were received as payment for the provincial assets sold to the corporation.²⁵

The practice of allowing only residents of a province to participate in the initial share offering is not new. Alberta's former Social Credit Government did much the same thing when it gave first chance to Albertans at the new shares of Alberta Gas Trunk Line Company, and Premier Lougheed's Progressive Conservative Government took the same approach with Alberta Energy Company.²⁶

There is also a parallel to be drawn between Premier Bennett's scheme and Milton Friedman's (a conservative American economist) views on the method and reasons for desocializing or denationalizing public sector corporations. In Friedman's writings on ways to denationalize or desocialize corporate wealth held in the public sector, Friedman said:

Now let us suppose by some miracle you really had a political regime that was committed to moving away from the kind of welfare state, nationalized apparatus that Britain has ... and wanted to get a largely free enterprise state in which people had a good deal more leeway about how they handled their own resources than they have now. What general principles ... are relevant in proceeding from here to there?... one suggestion a number of people have made which I think makes a great deal of sense would be, not to auction it away but give it away, by giving every citizen in the country a share of it.²⁷

This is, of course, what Premier Bennett did with some of the public holdings acquired by the NDP Government. The argument used by Mr. Friedman when he spoke about giving away Britain's publicly owned corporations is this: "The people of Great Britain own the steel industry, it is the property of all the citizens. Well, then, why not give

each citizen his piece?"²⁸ He reasoned that the giveaway of one industry would not amount to much to each individual, and he suggested adding to it the BBC, electricity, railroads, etc., and then hold a big giveaway.²⁹ There can be an analogy made between what Friedman suggests and what Premier Bennett actually did since the British Columbia Resources Investment Corporation is a holding company of pulp, lumber, and petroleum based industries.

As a fulfillment of a 1975 election promise and as another reason for Premier Bennett's Government to divest itself of these corporations was to bring about the separation of B.C. Cellulose and its affiliates from the direct administration of the Department of Forests. Premier Bennett said: "There is a conflict of interest in a situation where a department sets the rules, is the referee and is also the player in the game."³⁰

The rationale behind the formation of BCRIC was given by the Government as its commitment to private versus public ownership and a means by which British Columbians could invest in their province and at the same time help to develop the province. It was also created in order to fulfill an election commitment to "privatize" public holdings and to rectify the conflict of interest situation whereby the government was both the landlord and tenant of crown lands. It is noted, however, that the Government only "privatized" some of the public holdings that were profitable and it did

not completely rectify the conflict of interest situation since the government owns shares in the British Columbia Resources Investment Corporation, and its holdings include forest firms that lease crown lands.

The creation of the British Columbia Resources Investment Corporation was thus rationalized by the Government on the premise that the public interest would be served better by a private sector corporation than it would be served by a public sector corporation since it would provide an investment opportunity for the people of the province of British Columbia. The distribution of the free shares was a way in which the Government perceived that the public interest would be served based on the premise that BCRIC shares would increase in value and this would act as an incentive for the public to increase its investment in the British Columbia Resources Investment Corporation.

Structure and Operation

According to the British Columbia Resources Investment Corporation Act, the British Columbia Resources Investment Corporation is not an agent of the Crown. The Act states that the cabinet may appoint five individuals to incorporate a company under the Companies Act, and these individuals shall be the first directors and their appointment ceases when the board is elected unless they are elected. Each director is a holder of one common share of the company on

behalf of the Province.³¹ The directors are to be Canadian citizens and at least 60 per cent of the members of the board shall be residents of the province.³² Unlike the Crown corporation which has cabinet ministers on its board of directors, the BCRIC Act states that "No member of the Legislative Assembly is eligible to be appointed as a senior officer, as defined in the Companies Act, or to be elected or appointed to or act as a director of the company."³³ The BCRIC Act stipulates the government's power to select directors when it states:

So long as the Government owns or controls 10% or more of the issued and outstanding shares of the company, notwithstanding the Companies Act or the charter, the Government shall not vote its shares for the election of directors; but the minister may annually, with the approval of the Lieutenant-Governor in Council and effective at the time the annual general meeting is held, by notice in writing, appoint

- (a) one director if the number of directors on the board is 4 or less,
- (b) 2 directors if the number of directors on the board is 5, 6, 7, or 8, and
- (c) 3 directors if the number of directors on the board is more than 8.³⁴

However, the government may vote its shares in the ordinary way for the election of directors if it holds less than ten per cent of the voting shares, and the government's shares may be disposed of by the Minister of Finance with the approval of the Lieutenant-Governor in Council.³⁵

Those eligible to purchase, own, or hold voting shares of the corporation are restricted to Canadian citizens or persons who are residents of Canada. With the exception of the government, the total number of voting shares held is

restricted by categories of one per cent and three per cent. The three per cent holding is limited to such companies as the mutual fund trust or mutual fund corporation.³⁶

The British Columbia Resources Investment Corporation was incorporated under the Companies Act of British Columbia on February 22, 1978, and the British Columbia Resources Investment Corporation Act was proclaimed in parts on September 14, 1977 and March 9, 1978, and amended on August 24, 1978 and June 28, 1979. The British Columbia Resources Investment Corporation Amendment Act, 1979 repealed certain sections of the original Act, amended others, and added onto other sections or created new sections. For example, Section 18.1 empowers the corporation to issue bearer share certificates and stipulates the contents and execution of these shares, and Section 4 was repealed which had given residents of British Columbia share priority.³⁷

The objectives and mandate of the British Columbia Resources Investment Corporation are given in its prospectus, which states that the objective of the British Columbia Resources Investment Corporation is to maximize the value of BCRIC for the benefit of its shareholders and "BCRIC has the same unlimited investment opportunity available to it as any Canadian company and may vary or extend its investments in a manner that the directors believe will benefit the shareholders of BCRIC."³⁸ The inspection of the accounting records as to time, place, and under what conditions is to be determined by the directors.³⁹

As a result of the distribution of five shares by the Government, the preference to residents of British Columbia on subsequent offerings was eliminated. The residents of British Columbia who qualified were given five shares each with an option to purchase 5,000 more per person for six dollars at the time they applied for the free shares which were in bearer form; that is, they are not registered in the name of the shareholder and they are freely negotiable. In regard to bearer shares, the British Columbia Resources Investment Corporation Amendment Act 1979 states:

The bearer of a bearer share certificate is not by reason of being the bearer of the certificate be or be deemed to be a member of the company under this Act or the Companies Act and in particular shall not be entitled as such to receive notice of or to attend any meeting of members or to vote as a member.⁴⁰

On June 28, 1979, BCRIC had tabulated subscriptions of 77,530,380 shares at \$6 each for a net total of \$445,799,680 in addition to 2,072,087 free shares that had been applied for by residents of British Columbia.⁴¹ On the first day of trading, August 7, 1979, there had been 2,300,000 shares sold in less than 100 share lots and 78,900,000 registered shares sold.⁴² As of October 9, 1979, 96.2 per cent of the 100,000,000 shares were issued, and as of October 10, 1979, the British Columbia government was the largest shareholder with 4.7 per cent of the outstanding stock.⁴³ BCRIC's present income is derived primarily from dividends paid by Canadian Cellulose and Westcoast Transmission and from

investment interest on its money received from the share offerings.⁴⁴

In most types of investments each shareholder is a registered owner; however, under the scheme of BCRIC, only holders owning 100 or more registered shares are entitled to vote, receive reports and notices from the company, be mailed dividends, or be protected from the theft of bearer share certificates. Under the BCRIC legislation, only those people who purchased an extra 95 shares in addition to the five shares given to them by the provincial government and conditional upon these shares being registered are eligible to vote.⁴⁵

There have been criticisms of the Government for the way in which the British Columbia Resources Investment Corporation was structured. When Premier Bennett presented for second reading the bill that would establish the British Columbia Resources Investment Corporation, he said: "The intent of this bill is that the government will own less than 50 per cent of the shares."⁴⁶ Premier Bennett went on to say that the bill would create a public company operating in the private sector and the company would neither be an arm of government nor would it be a crown corporation. He stated:

It even has strong differences from the corporations that perhaps it was modelled after - the Alberta Energy Corporation and the CDC [Canadian Development Corporation] - allowing the interim board of directors to make up their own regulations rather than have a preconceived set of regulations from the government as to how that company should operate. It is being

given the same opportunities as any public company operating in the private sector to function and to have all of the responsibilities.⁴⁷

Premier Bennett also stated that "the government cannot control the directorate no matter what its shareholdings are."⁴⁸ However, Mr. Scott Wallace (Progressive Conservative MLA - Oak Bay) argued that the whole thrust of the bill was meant to maintain a strong and definitive presence of directors on the board who were appointed by the government since the number of directors who can be appointed by the minister with the permission of the cabinet is a constant proportion of the total number of directors. Mr. Wallace noted that Premier Bennett argued that because the government would have less than 50 per cent of the shares that this made the corporation a completely "free enterprise" company. Mr. Wallace argued that this suggestion of Premier Bennett's was incorrect as long as the government had any substantial percentage of control over any company.⁴⁹

Since August 31, 1977, at which time Mr. Wallace made the above argument and September 1, 1977, when the British Columbia Resources Investment Corporation Act was proclaimed, there was one significant change in this Act and that was the provision for the distribution of free bearer shares under the British Columbia Resources Investment Corporation Amendment Act, 1979.⁵⁰ As a result of this distribution, the shares held by the government have been considerably reduced. A prominent investment dealer stated that at this time the

government of British Columbia has no more control over the British Columbia Resources Investment Corporation than it has over any other private sector corporation.⁵¹ In June 1979, when one of the directors of British Columbia Resources Investment Corporation, Mr. Pitts, was asked if the present or any future government could influence the management of BCRIC's affairs by, for example, amending its Act of incorporation to compel it to do something or prevent it from doing something, Mr. Pitts answered:

BCRIC is no more vulnerable to legislative action than any other company that falls under the B.C. Companies Act. The government has the power if it saw fit, and it could similarly use its power to amend the British Columbia Resources Investment Corporation Act.⁵²

The British Columbia Resources Investment Corporation is a shared enterprise; that is, it was established by a statute of the British Columbia legislature and the provincial government has taken a direct equity position in common with other participants. As in the private sector, the board of the British Columbia Resources Investment Corporation is responsible for its management. As of October 1979, there were six directors on its board; the same six who were originally appointed by Premier Bennett's Government. Four of these six directors were called interim directors who were appointed in September 1977. As mentioned earlier, there are to be no ministers on the board of directors of the British Columbia Resources Investment Corporation. As a result, this corporation is freed from

political participation in its board's decisions and it is permitted to operate in much the same manner as any other private sector corporation. There is one difference, and that is the government of British Columbia is the largest shareholder with 4.7 per cent of the outstanding shares. However, due to the fact that this percentage of stock ownership is so small, the government would be able to exercise, at the most, minimal direction at a stockholders meeting.⁵³ The mandate of the British Columbia Resources Investment Corporation is that of a holding company for investment purposes, and the British Columbia Resources Investment Corporation is accountable to its shareholders and not directly to a minister. The government is basically just one of the many shareholders of BCRIC, and it is entitled to no special treatment.

Public Interest

The British Columbia Resources Investment Corporation was established to act as a vehicle by which certain crown corporations and government holdings could be "privatized". At the time BCRIC was formed, these holdings which were to become part of the British Columbia Resources Investment Corporation were profitable and the income from these ventures amounted to millions of dollars. Instead of completely privatizing the British Columbia Resources Investment Corporation, the government initially retained a substantial

percentage of the shares. It did, however, devise a scheme of share distribution whereby each resident of British Columbia who was eligible would receive five free shares of BCRIC from the Government. This policy was seen by the Government's critics at the time as a way of capturing more votes for the Social Credit Party in the upcoming provincial election. The distribution scheme was explained to the electorate by the Government as a means by which each resident would have a share in the resources of British Columbia. It would encourage more investment and encourage an appreciation of the merits of private enterprise. In this way, the public interest, as perceived by the government, would be served.

To begin with, it is interesting to note that the British Columbia Resources Investment Corporation was not composed of any of the crown corporations that had been a financial burden on the taxpayers of the province. The question arises as to whether the government should only retain the public corporations which lose money and once a public corporation becomes profitable whether it should be sold to private interests. It has been noted that where the prevailing philosophy is strongly in favor of private enterprise there will probably be strong pressure exerted on the government to sell to the private sector successful ventures it has acquired. It is argued that this is desirable since it provides the government with a revolving fund from which

to undertake further enterprises. However, the successful replenishment of such a fund would depend upon the government quickly making a large number of its enterprises profitable. Some experts argue that this does not support the rationale used by governments to create public enterprises and if successful enterprises were large, it would be doubtful that sufficient private capital would be available. They state that:

The idea of disposing of common property when it is profitable and when the risks have been taken by the community to private individuals who will gather the reward that will come to the undertaking from general economic growth, without having taken any of the risks, seems odd. To the community, the justification for private enterprise, and for the protection that the community afford to private property, is that it should be enterprising and risk-taking. From the national point of view, to transfer property from the public to the private sector in this way seems meaningless, unless it can be maintained that private ownership will lead to a more efficient use of resources.⁵⁴

Mr. Barrett, the leader of the New Democratic Party, said that he saw nothing wrong with the government "sharing with the people its own resources by granting ... them a crack at their own resources on a permanent basis."⁵⁵

However, he criticized the Government for putting all the profitable government holdings into BCRIC where only the rich would stand to gain while the ordinary taxpayer would be left with the losers like B.C. Hydro and B.C. Ferry Corporation.⁵⁶

As a result of the change in government policy in regard to the share offering, the value of the shares

decreased before they were distributed.⁵⁷ The British Columbia Resources Investment Corporation Prospectus notes some of the reasons for the change in the value of the shares:

After the issue of the 15,000,000 fully paid common shares of BCRIC, the pro forma net book value per common share of BCRIC, based on the Consolidated Balance Sheet of BCRIC as of December 31, 1978, would be \$11.16 per share. The increment in the net book value of BCRIC for common shares sold on this offering is \$6.00 per share, less agent's commissions and expenses of issue. The sale of each common share will result in immediate dilution of the pro forma net book value per share referred to above. The full extent of the dilution resulting from this offering cannot be determined until the offering is completed and the number of common shares is known.⁵⁸

By encouraging individuals to invest in a public company, the benefits of such investment can be shared by a large number of people. However, the share distribution was criticized by the Progressive Conservative leader as interference in the private sector. It amounted to the Government instructing people to invest in a particular company and using taxpayers' money in the process.⁵⁹ The BCRIC Prospectus states that the government does not in any manner guarantee the common shares of BCRIC nor does any government have any direct or indirect obligation with respect to them. In addition, since BCRIC is a new company, potential projects and investments that may be acquired or in which BCRIC may participate are not known.⁶⁰ The Prospectus does not confirm Premier Bennett's statement that shares in BCRIC is the best opportunity they'll have in a lifetime.⁶¹ For example, the Prospectus states: "Results experienced by BCRIC's subsidiaries over the past five years are not necessarily

indicative of future performance. No representations can be made to the future influence of these factors on prices for BCRIC's common shares."⁶²

The amount of public money spent to distribute the shares of BCRIC was also criticized. The Government could have privatized the holdings that became a part of BCRIC by selling them at market value to private sector investors. The money that was received from these sales could then have been used to reimburse the provincial treasury for the purchase costs and other expenditures incurred by the government for these government holdings and if there was a profit, that profit could then be used to either lessen the tax burden or to finance social services. Instead, the Government chose to spend an estimated \$20 million to distribute the public shares and help promote the sale of the British Columbia Resources Investment Corporation's share offering.⁶³

The costs of the distribution program included such things as: a letter from the Premier, brochures, application forms, \$5 fee for each application processed by a financial institution, and advertising. After the costs of the share offering to the public are calculated, there is very little net profit to the holder of the five bearer shares.⁶⁴ If the owners of the bearer shares are discounted because of the insignificant number of shares each individual holds, then the holdings that were once owned by all the people of British Columbia are now held by a smaller number of people who are not necessarily all residents of British Columbia.

In addition, BCRIC made use of the taxpayers' financing of the initial free share offering of the government to promote its 5,000 or less share distribution at \$6 per share.⁶⁵ For instance, Mr. Helliwell, President of British Columbia Resources Investment Corporation, said: "At the same time as the applications were to be received for free shares, we [BCRIC] would accept subscriptions for further shares at six dollars each to be issued from our treasury to a maximum of 5,000 per eligible person."⁶⁶

Another area of dispute pertains to the Government's selling of the public holdings to the holding company. Canadian Cellulose, Kootenay Forest Products, and Plateau Mills were sold for \$73,273,000; West Coast Transmission for \$37,364,000; and petroleum and natural gas licence for \$40,896,000 for a total of \$151,532,930.⁶⁷ The Honourable Evan Wolfe, Finance Minister, said the values were essentially market values and were established by officials in the finance ministry and ministry of mines and petroleum resources, with advice from the private sector.⁶⁸ On the other hand, Mr. Barber (NDP MLA - Victoria) noted that the Social Credit fund raiser, Mr. Austin Taylor, was the vice-president of one of the investment firms hired by the provincial government to evaluate the assets to be transferred to BCRIC. Mr. Barber said the replacement value of the assets was close to \$500 million instead of \$151,532,930.⁶⁹ Mr. Hepburn, President of investment dealer Odlum Brown and T.B. Read, said that

the British Columbia Resources Investment Corporation paid an average of \$17 per acre for its 2,343,667 acre oil and gas licence and they must be worth more than that amount. Similar acreage in British Columbia, he noted, sold at an average of \$61 an acre in 1978.⁷⁰ This amounts to a difference of over \$600 million that the government may have lost by not following the procedure of selling oil and gas licences on a bid system. Instead, the government of British Columbia appointed an assessor to pick out areas of land which it then sold the licence on this property to BCRIC for \$40,896,000.⁷¹

Premier Bennett said that anyone with initiative and enterprise could buy additional BCRIC shares.⁷² However, he failed to take into account all the people who cannot afford to purchase shares - the people who are unemployed or on welfare. Besides, many people who are employed have only enough money to meet their immediate needs and cannot afford to speculate on the stock market. Therefore, the majority of the shares will end up in the possession of the more affluent people in our society.

Although Premier Bennett stressed the point that BCRIC was formed as a vehicle in which to invest in British Columbia's economy, BCRIC is free to invest in anything it wishes. This could quite conceivably include foreign as well as domestic investments. Already, BCRIC has made an investment in another province.⁷³ Investment decisions are made by the board of directors of British Columbia Resources

Investment Corporation, none of whom are representatives of the government even though they were initially appointed by the Government.

Summary

The Social Credit Party bases its political platform on "free enterprise" policies. In practice, however, it has to work within a mixed economy. In the case of the British Columbia Resources Investment Corporation, the Government returned certain industries back to the private sector while remaining the largest shareholder.

The Government argued that it was in the public interest to establish the British Columbia Resources Investment Corporation because it would, among other things, give the people of British Columbia an opportunity to invest in the resources of British Columbia. On the other hand, the New Democratic Party argued that only the rich would benefit from the transfer of the government shares to BCRIC. The people who received the "free shares" had already paid for them in the sense that when the government initially purchased these holdings that became part of BCRIC, it paid for them with the taxpayers' money.

As mentioned earlier, the British Columbia Resources Investment Corporation is a shared enterprise and it operates as a holding company for investment purposes. British Columbia Resources Investment Corporation was established by a statute of the British Columbia legislature, and it is

to operate with no ministers on its board. BCRIC has the same type of accountability to the government as it renders to the other shareholders, and its objective is the maximization of profits. Although the government is the largest shareholder and it appointed the present management of BCRIC, the decisions about policy are suppose to come from the directors. Therefore, when the public holdings became a part of BCRIC and the government had reduced its share position to 4.7 per cent, it could no longer set the policy for these holdings. In addition, at the present time the government cannot appoint directors, it must elect them.

As soon as the public holdings such as Canadian Cellulose, Kootenay Forest Products, and Plateau Mills came under the ownership of the British Columbia Resources Investment Corporation, they were once again owned by a corporation whose objective is profit maximization. Although these companies would not necessarily be kept in operation under public ownership if the losses became great, there is more likelihood of the government maintaining the viability of the corporation in order to protect a community and employment than there would be under a shared enterprise situation where the maximization of profits is the goal. Furthermore, the communities in which these companies are situated are for the most part dependent upon the forest industry.

If the Government had sold its holdings to the private sector at market value and used the money to reimburse the

provincial treasury for the initial cost of these holdings and used the profits to finance such things as social services, the rationale behind this type of arrangement might be seen as a belief by the Government that these holdings would be operated better for the public interest by the private sector than by the public sector. However, the Government did not do this. The Government could have retained a share position and sold the remainder of the shares to the private sector investors at market value. Instead, it chose to sell the public holdings for a price which was reported to be below market value. Then it used approximately \$20 million of public funds to distribute shares in companies that the public had originally paid for at the time the Government initially purchased the companies. Due to such factors as the costs involved in the distribution of the shares, it would seem that the establishment of the British Columbia Resources Investment Corporation resulted in a loss of money to the provincial treasury.

It might be argued that the public interest is served by the British Columbia Resources Investment Corporation because of its investments in industries in British Columbia and this will help stimulate the economy and with an improved economy every one benefits. On the other hand, at the present time, BCRIC has made few investments. In addition, the more affluent people, the minority, stand to benefit from BCRIC since the majority of the people can not necessarily afford to buy shares. Even though BCRIC attempts to bring about

greater participation in the economy by the people of British Columbia in the form of investments in that corporation, in fact only a minority of the people of the province of British Columbia own shares in BCRIC. If the five shares are discounted because of their relative insignificant number per person, of the approximately 2.5 million people of British Columbia who owned the holdings that became a part of BCRIC, after the distribution and sale of BCRIC shares, 130,000 people owned one hundred or more shares and 40,000 more people purchased extra shares but not in sufficient number to be qualified for registration.⁷⁴ Therefore, the holdings once owned by all of the people of British Columbia are now owned by a minority of the same people plus a minority of people from the other provinces of Canada since all Canadians can now purchase shares.

Since this was the final case study to be examined, the next chapter is a summation of the three studies.

FOOTNOTES TO CHAPTER IV

¹British Columbia, Laws, Statutes, etc., British Columbia Cellulose Company Act, Chapter 8 (Victoria: Queen's Printer, 1973).

²Democrat, Fall 1975, Vol.15, No. 9.

³British Columbia Resources Investment Corporation, Prospectus (Vancouver: Evergreen Press, 1979), p. 3.

⁴Vancouver Province, April 3, 1973.

⁵Vancouver Province, April 17, 1973.

⁶Vancouver Province, April 3, 1973.

⁷Democrat, Fall 1975, Vol. 15, No. 9.

⁸BCRIC Prospectus

⁹Globe and Mail, December 21, 1978.

¹⁰BCRIC Prospectus

¹¹Vancouver Sun, February 6, 1974.

¹²British Columbia, Ministry of Finance, Public Accounts 1974/75 (Victoria: Queen's Printer, 1975), p. F5.

¹³BCRIC Prospectus

¹⁴Vancouver Sun, March 10, 1978.

¹⁵BCRIC Prospectus

¹⁶Vancouver Sun, July 7, 1979.

¹⁷Globe and Mail, April 4, 1978.

¹⁸BCRIC Prospectus

¹⁹Ibid.

²⁰Vancouver Province, September 1, 1977.

²¹British Columbia, Legislative Assembly, Debates, 31 August 1977 (Victoria: Queen's Printer, 1977), p. 5128.

- ²²Vancouver Province, September 1, 1977.
- ²³British Columbia, Legislative Assembly, Debates, 2 April 1979 (Victoria: Queen's Printer, 1979), p. 257.
- ²⁴Vancouver Province, August 8, 1979.
- ²⁵British Columbia, Legislative Assembly, Debates, 2 April 1979 (Victoria: Queen's Printer, 1979), p. 257.
- ²⁶B.C. Business Week, January 23, 1979, p. 13.
- ²⁷As quoted in the Vancouver Province, August 7, 1979.
- ²⁸Ibid.
- ²⁹Ibid.
- ³⁰Vancouver Sun, June 17, 1976.
- ³¹British Columbia, Laws, Statutes, etc., British Columbia Resources Investment Corporation Act, Chapter 47 (Victoria: Queen's Printer, 1977), Sec. 2(1).
- ³²Ibid., Sec. 17.
- ³³Ibid., Sec. 16.
- ³⁴Ibid., Sec. 16.
- ³⁵Ibid., Sec. 16 (6) and Sec. 17.
- ³⁶Ibid.
- ³⁷British Columbia, Laws, Statutes, etc. British Columbia Resources Investment Corporation Amendment Act, 1979 (Victoria: Queen's Printer, 1979), Sec. 4 and 18.1.
- ³⁸BCRIC Prospectus.
- ³⁹BCRIC Amendment Act, 1979, Sec. 18.15.
- ⁴⁰Ibid., Sec. 18.1 (5).
- ⁴¹Vancouver Province, June 28, 1979.
- ⁴²Interview with Mr. Petitpierre, Assistant Secretary, British Columbia Resources Investment Corporation, October 15, 1979.
- ⁴³Vancouver Province, October 10, 1979.

- 44 Vancouver Express, February 9, 1979.
- 45 BCRIC Prospectus.
- 46 British Columbia, Legislative Assembly, Debates, 31 August 1977 (Victoria: Queen's Printer, 1977), p. 5129.
- 47 Ibid.
- 48 Ibid.
- 49 Ibid., p. 5145.
- 50 BCRIC Amendment Act, 1979, Sec. 18.1.
- 51 Telephone Conversation with Mr. T. Hepburn, President, Odlum, Brown and T.B. Read, May 16, 1980.
- 52 Vancouver Province, June 27, 1979.
- 53 Telephone Conversation with Mr. T. Hepburn.
- 54 N.S. Carey-Jones, S.M. Patankar, M.J. Boodhoo, Politics, Public Enterprise and the Industrial Development Agency: Industrialisation Policies and Practices (London: Croom Helm Ltd., 1974), p. 27.
- 55 Vancouver Province, September 1, 1977.
- 56 Ibid.
- 57 British Columbia, Legislative Assembly, Debates, 27 March 1979 (Victoria: Queen's Printer, 1979), p. 75.
- 58 BCRIC Prospectus.
- 59 British Columbia, Legislative Assembly, Debates, 27 March 1979 (Victoria: Queen's Printer, 1979), p. 76.
- 60 BCRIC Prospectus.
- 61 British Columbia, Legislative Assembly, Debates, 27 March 1979 (Victoria: Queen's Printer, 1979), p. 75.
- 62 BCRIC Prospectus.
- 63 British Columbia, Legislative Assembly, Debates, 27 March 1979 (Victoria: Queen's Printer, 1979), p. 77.
- 64 Financial Post, March 10, 1979.

65 Interview with Mr. Petitpierre.

66 British Columbia Resources Investment Corporation, Remarks for the Toronto Society of Financial Analysts by David L. Helliwell, President and Chief Executive Officer, September 27, 1979.

67 BCRIC Prospectus.

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71 BCRIC, Remarks for the Toronto Society of Financial Analysts by David L. Helliwell.

72 British Columbia, Legislative Assembly, Debates, 3 May 1978 (Victoria: Queen's Printer, 1978), p. 1072.

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CHAPTER V

ANALYSIS AND CONCLUSIONS

In this chapter, the three case studies will be compared and contrasted with respect to: (1) the rationale behind the formation, (2) the structure and operation, and (3) the manner in which the public interest is served by the public enterprise. In addition, the public corporation's role as an instrument of government policy will be examined. This final chapter summarizes the main points of the thesis and formulates certain conclusions.

A. Analysis: History and Rationale Behind the Formation

There are important similarities and differences in the manner in which British Columbia Hydro and Power Authority, the Insurance Corporation of British Columbia, and the British Columbia Resources Investment Corporation came into existence. British Columbia Hydro and Power Authority came into existence as a result of the expropriations of two privately owned corporations and their amalgamation with a public body. The Insurance Corporation of British Columbia was a new business venture. On the other hand, British Columbia Resources Investment Corporation came into existence in order to privatize certain public holdings.

All three corporations have one principal reason in common for their formation, the pursuit of the "public interest" as it was rationalized by the government which was responsible for its creation. There are differences in the meaning of the

concept, "public interest". Premier W.A.C. Bennett seems to have defined the public interest in terms of tax savings to a public corporation that would be passed on to the consumers. Hydro rates, it was argued, would be cheaper since a crown corporation, unlike a private sector corporation, is not subject to federal corporate taxes. As a result, the savings realized by the change in status would result in large financial savings which could then be transferred to the public in British Columbia in the form of lower electricity rates. Secondly, there was the implication that a public corporation would provide electricity in a more equitable manner across the province especially in remote areas.

Conversely, Premier Bill Bennett argued in the case of the British Columbia Resources Investment Corporation that the public interest would be served by returning public holdings to the private sector. Individual participation in the economy in his Government's view was in this particular case preferable to government ownership. Besides, the Social Credit Party's political platform in the 1975 election was based on "free enterprise"; that is, the promise that there would be a reduction in government participation in the economy. By returning some public holdings to the private sector, the Government would be able to enhance its image as a "free enterprise" government.

In the case of the Insurance Corporation of British Columbia, it was the test of the New Democratic Party's policy

of public ownership; that is, public ownership if it was believed to be necessary. The NDP Government stated that public ownership of an automobile insurance company was necessary since the private sector automobile insurance companies were noted for price fixing and declining to insure high risk drivers. In addition, the entire population of British Columbia was not insured against loss from automobile related accidents. Therefore, the New Democratic Party was convinced that a publicly owned automobile insurance company would rectify this situation and serve the public interest better than it had been served by the private sector automobile insurance companies.

There are certain parallels and contrasts to be drawn with regard to the Official Opposition's position on the creation of the three corporations. For instance, in the case of B.C. Hydro, public ownership of B.C. Electric (one of the expropriated private companies that became a part of B.C. Hydro) was a party policy of the Official Opposition. The Government, on the other hand, did not subscribe to public ownership of B.C. Electric in its party's platform. However, in 1961, the Government made the decision to expropriate B.C. Electric and put it under government ownership. The Official Opposition welcomed the expropriation and voiced approval of the Government bill to create B.C. Hydro. In contrast, in the case of the Insurance Corporation of British Columbia, public ownership of the automobile insurance industry was the

fulfillment of an election promise of the Government Party. While the Official Opposition did not go as far as to include government ownership of the automobile insurance industry as a party policy, it did, however, come close to adopting this type of policy at a party convention. In other words, in both instances the Official Opposition was either committed to public ownership in that particular case or favorably disposed towards public ownership. However, unlike the case of B.C. Hydro where the Official Opposition welcomed the bill to establish the public corporation, in the case of the Insurance Corporation of British Columbia, the Government bill to establish this corporation was actively opposed by the Official Opposition.

In the case of British Columbia Resources Investment Corporation, and in contrast to the other two case studies, the political party which became the Government after December 11, 1975, had promised that if it was elected it would reduce government involvement in the economy. However, it was not specific as to exactly how it was going to accomplish this and how many government holdings would be privatized. When the announcement was made by the Government that it was going to establish the British Columbia Resources Investment Corporation, it was revealed that only the profitable government holdings were to be privatized. The Official Opposition, of course, would not support the Government bill to establish a public corporation particularly since the establishment of

this public corporation would ultimately result in the privatizing of government holdings which it had purchased when it was the government of British Columbia.

The development of the province of British Columbia was given in each case as one reason why each government created a public corporation. The manner in which this development was to take place varied with each corporation. In the case of B.C. Hydro, Premier W.A.C. Bennett argued that the establishment of this public corporation would help develop the province of British Columbia by ensuring large quantities of hydro electric power which would act as a stimulus to the economy by attracting industry to British Columbia. Conversely, a number of years later Premier Bill Bennett argued that the province could be developed better by private enterprise and the government should not be involved in businesses and industry. Therefore, publicly owned holdings should revert to private sector ownership. As a result, his Government maintained that by "privatizing" certain public holdings to form the British Columbia Resources Investment Corporation investment by the public in BCRIC would be encouraged. This money would then be invested by BCRIC in the resource industry of British Columbia and the economy of the province would be stimulated. In contrast to the reasoning behind the formation of British Columbia Resources Investment Corporation, the NDP government argued that one of the merits of a publicly

owned automobile insurance corporation over private insurers was that the Insurance Corporation of British Columbia would have large amounts of investment money which would be invested in Canada and not in other parts of the world and this investment money would have an economic impact upon the province.

Direct financial benefits to the public were also emphasized as a factor behind the formation of all three corporations even though this was done in a slightly different manner in each instance. The financial benefit to be realized by the public with the establishment of the British Columbia Hydro and Power Authority and the Insurance Corporation of British Columbia was in the form of a promised rate reduction. B.C. Hydro's rates were to be decreased partially as a result of the non-payment of federal corporate taxes, while ICBC reductions were to become possible partially because of a centralized administration which had to deal with only one set of rates, one type of claim form, etc., instead of having to contend with a multitude of different administrations with their individual rate structures, claim forms, and so forth. In contrast, the financial gain to be derived from the formation of the British Columbia Resources Investment Corporation came in the form of five free shares. The reasoning behind this share distribution was that the people of the province should have a stake in the future of British Columbia. Speaking about the distribution of the free shares, Premier Bennett said: "We hope that giving these shares to the

people will provide them with a tangible sense of ownership and participation in British Columbia's economic future."¹

These public corporations were thus created as instruments of government policy. The Lambert Commission comments on federal crown corporations as instruments of government policy, and it had this to say:

Most crown corporations are created as instruments of national purpose and that purpose, as expressed in their mandates, extends beyond the business at hand. Indeed, if this were not true, there would be little to justify government involvement in them.²

In the case of the crown corporations in British Columbia that were studied, the government has the power to control their policy direction; however, this policy direction by government is somewhat different in the case of the shared enterprise studied. Again, in reference to the federal public corporations, the Lambert Commission says that "Shared Enterprises are instruments of government policy, but in a more limited sense than wholly-owned Crown corporations."³ It would seem that in the case of the shared enterprise examined, it is to a very minimal degree an instrument of government policy. Even though the government is the largest shareholder, it owns only 4.7 per cent of the outstanding shares.

Therefore, it seems that each government justified the creation of a public corporation in the belief that the creation of the public enterprise would serve the public interest. From an analysis of the rationale behind the formation of each

corporation, it would seem that the serving of the public interest as interpreted by the government which formed the public corporation could include such things as the provision of better services, the implementation of government policy and/or electoral promises, and the development of the province.

B. Analysis: Structure and Operation

The structure of British Columbia Hydro and Power Authority is quite similar to that of the Insurance Corporation of British Columbia since they are both crown corporations which are wholly owned by the Crown in right of the Province of British Columbia. In contrast, British Columbia Resources Investment Corporation is a shared enterprise which operates in the private sector. It has a share structure and these shares are owned by both the province of British Columbia and individual shareholders.

Both the Insurance Corporation of British Columbia and British Columbia Hydro and Power Authority have a board of directors consisting of a combination of cabinet ministers and appointed members from the private sector who are appointed by the Lieutenant-Governor in Council. The Lambert Commission, for instance, questions the practice where policy direction and management responsibilities are combined, and it states:

"The boundaries between policy and management should be clearly recognized, for trespass imperils the successful functioning of the corporation and calls into question the very reason for adopting the corporate form."⁴ While provincial governments

tend to have ministers on their boards of public corporations, the federal government has refrained from appointing ministers as directors of crown corporations in order to separate the management of a crown corporation from continuous partisan intervention and day-to-day government or parliamentary scrutiny.⁵ On the other hand, there is the argument that since the crown corporation is wholly owned by the province, the corporation should have more governmental control over the direction of its operations if the corporation is going to be successful in carrying out government policy.

In contrast to British Columbia Hydro and Power Authority and the Insurance Corporation of British Columbia, the British Columbia Resources Investment Corporation has no ministers on its board of directors. Initially all board members were appointed by the Lieutenant-Governor in Council. At the present time, however, the government is required to vote for directors in the same way as do the other shareholders. There are, nevertheless, stipulations in the British Columbia Resources Investment Corporation Act which allows for the appointment by a minister, with the approval of the Lieutenant-Governor in Council, of a given number of directors which is dependent upon the size of the board and the percentage of shares held by the provincial government. As long as the government owns less than ten per cent of the shares of BCRIC, directors are to be elected in basically the same way as the other private sector corporations elect their boards. The British Columbia Resources Investment Corporation

is therefore given more freedom from political intervention than is accorded to the two crown corporations, British Columbia Hydro and Power Authority and the Insurance Corporation of British Columbia.

The Civil Service Act is not applicable to these three corporations studied; therefore, these corporations have the freedom to hire and fire their personnel without regard to this Act. Financial accounting is required by both B.C. Hydro and ICBC with regard to reports to the cabinet minister responsible for the corporation, who, in turn, places these records before the legislature for its scrutiny. In contrast, BCRIC is required to submit an annual report to those shareholders who own more than 100 shares. Legislation provides for the auditing of the accounts of both B.C. Hydro and ICBC by the Comptroller-General. There is, however, no such provision written into the British Columbia Resources Investment Corporation Act. In contrast to B.C. Hydro and ICBC which are, in theory at least, ultimately accountable to the people of British Columbia through the legislature, BCRIC is only accountable to its shareholders.

In the case of both B.C. Hydro and ICBC, borrowings must be approved by the legislature if they exceed a certain limit which is specified in the respective corporation's statute, and the borrowings done by these corporations are financially guaranteed by the province of British Columbia. This is sometimes seen as a feature which gives public corporations

an unfair advantage over the private sector corporations since this results in a lower borrowing rate for the public enterprise. On the other hand, it seems that a public enterprise should have some advantage over the private sector corporations since it might be required to carry out certain government policies which are not necessarily in the best financial interests of the corporation. Besides, any saving that the public corporation makes as a result of favorable interest rates brought about from having provincial guarantees ultimately should benefit the consumer if this saving is passed on to the consumer in the form of lower rates. As discussed in Chapter II, if the crown corporation is to have an independent status, there is the question whether it should have its borrowings guaranteed by the province. There is also the question of the economic position in which the province might be placed should the crown corporation default on its payments to its creditors. In the case of one crown corporation examined, its borrowings are substantial. Unlike B.C. Hydro and ICBC whose borrowings are backed by provincial guarantees, the borrowings of BCRIC, if any, are not guaranteed by the province of British Columbia.

Since both Plateau Mills and Kootenay Forest Products were crown corporations before they were transferred to British Columbia Resources Investment Corporation, they were quite similar in structure to both B.C. Hydro and ICBC. The remaining two holdings of BCRIC, excluding the 2.3 million,

acres, were quite different in structure because they were not wholly owned by the province of British Columbia. Canadian Cellulose and Westcoast Transmission were and still are both subject to the same type of borrowing arrangements, for instance, as any other private sector corporation.

The legislation respecting B.C. Hydro and ICBC provides for broad delegation of responsibility. B.C. Hydro operates a gas and electric utility as well as a railroad, while ICBC operates an insurance company, which sells various types of insurance, and autobody shops. Even though these corporations are substantially different in their operation, they both provide essential services and they both have the power of expropriation and, among other things, they can both construct buildings and acquire property and other assets. In contrast, BCRIC is basically an investment corporation with the freedom to invest as it chooses.

Even though the government of British Columbia owns only 4.7 per cent of the outstanding stock in British Columbia Resources Investment Corporation, it is its largest shareholder. As the largest shareholder, it is not certain how much influence the government has on the formulation of BCRIC's policies. If there were a policy direction that could be exercised over BCRIC, it would not be as great as it is over B.C. Hydro and ICBC or as great as it previously had been over Kootenay Forest Products and Plateau Mills. Similarly, the government's control over the 81 per cent shareholding of Canadian Cellulose and 10 per cent share

holding of Westcoast Transmission has been considerably diminished even though directors from BCRIC sit on the board of these two companies.⁶ There is, however, nothing to prevent the provincial government from obtaining more shares in BCRIC in order to increase its holdings nor is there anything to prevent the government from divesting itself of its shares in BCRIC.

With the exception of receiving cabinet approval on the compulsory automobile insurance rates for the Insurance Corporation of British Columbia, both the Insurance Corporation of British Columbia and British Columbia Hydro and Power Authority determine their own rates. There is no provision for public scrutiny of the decisions on rates.

The crown corporation form presents a dilemma for the government in the sense that a balance between the need for autonomy of the public corporation on one hand and the requirement that the corporation be accountable to the legislature and carry out government policy on the other hand has to be found. Even though the shared enterprise is free to operate in much the same way as any other private sector corporation, the government is still a shareholder. This raises the question whether the government should have a special status that is not accorded to the other shareholders of a shared enterprise and if this special status should include the requirement that the shared enterprise be made more accountable to the legislature. In

the case of the federal shared enterprises, the Lambert Commission, for instance, recommends that one way to increase accountability would be to have a designated minister as the accountability link between a shared enterprise and Parliament.⁷ It would seem that in the case of BCRIC that if more accountability was required that legislation could be enacted to allow for this provision that is recommended by the Lambert Commission or the province of British Columbia could increase its shareholding in BCRIC to ten per cent or more and this would give the cabinet the power to appoint directors.

A summary of this section shows that the structure and operation of a public corporation is important since this determines to a large extent the manner in which the public corporation is ultimately accountable to the people and the type and scope of the services that will be provided.

C. Analysis: Public Interest

The rationale behind the formation of the public corporation was given by the respective governments as a means to serve the public interest. From the point of view of the Government, public interest in the case of B.C. Hydro means that the saving on corporate taxes will be ultimately passed on to the consumer and more people in the province will be provided with electric services. Similarly, in the case of ICBC, from the Government's point of view, the public interest will be served as a result of lower automobile insurance rates

and financial protection from losses due to automobile related accidents. On the other hand, from the point of view of the Government which formed BCRIC, the public interest is served by the distribution of free shares and the opportunity it provides for investment.

From the point of view of clientele interests, the creation of these enterprises improved and/or extended services to the public in the case of the two crown corporations. Prior to the establishment of B.C. Hydro, hydro needs of the people of the province were served mainly by a private company, B.C. Electric, although there were other companies and a public power commission serving these needs. This company, B.C. Electric, was in the business to maximize profits similar to all companies operating in the private sector. Similarly, prior to the establishment of ICBC, the automobile insurance needs of the people of the province had been served by the private sector insurance companies who were also in the business to maximize profits. Just as B.C. Electric had virtually no competition in certain areas of British Columbia, the private sector automobile insurance industry was virtually non-competitive. For instance, the Royal Commission on Automobile Insurance said:

The absence of effective competition, in addition to creating a situation which should not be tolerated, is likely to represent a considerable monetary cost to the public generally. In its consideration of structural factors and market power, the Commission noted that during 1966 the price at which automobile insurance was sold was standardized over almost 80% of the market.⁸

On the other hand, before the establishment of BCRIC, the public holdings that were to become part of BCRIC were competing with other private sector industries and they were, for the most part, making a profit from their operations. Canadian Cellulose, for instance, was not only a profitable enterprise, it was serving an economic need in an area that could be seriously affected if its operations closed down. Similarly, Plateau Mills and Kootenay Forest Products are companies which are depended upon in their respective areas to provide employment for many people.

While it was argued by the respective Governments that formed B.C. Hydro and the Insurance Corporation of British Columbia that a public corporation would better serve the public interest and develop the province, the Government that formed BCRIC argued that the public interest and the development of the province would be served better by private rather than by public enterprise.

A comparison between B.C. Hydro rates and other utilities is difficult due to a multitude of factors which go beyond the scope of this paper. Since B.C. Hydro was formed there have been many rate changes - at first rates were lowered and later they were increased, and they have been going up consistently ever since.

In the case of ICBC, it is easier to make fairly meaningful comparisons because most provinces in Canada still have private automobile insurance companies rather than publicly

owned. Initially the rates for British Columbia's motorists were much lower than they were for motorists where private sector automobile insurance companies operated. In spite of the huge rate increases instigated in 1976, the rates in British Columbia at that time were comparable to those of the private sector's rates; however, they were considerably higher than those of Manitoba and Saskatchewan crown corporations' rates. By 1977 ICBC's automobile insurance rates had decreased and they were generally lower than the private sector automobile insurance industry's rates.

Just as there is no independent body to decide on the rates of ICBC, there is no independent body to decide whether B.C. Hydro's rate increases are justified or whether B.C. Hydro can justify the building of more dams. If the proposed Public Utilities Commission is established, this might change the way in which the rates are determined for B.C. Hydro.⁹

Prior to the establishment of B.C. Hydro, B.C. Electric mainly serviced the higher density areas of Vancouver and Victoria while the other areas were either serviced by a number of smaller utilities, inadequately serviced, or not serviced at all. Today, more than 90 per cent of the population is serviced by B.C. Hydro. Similarly, prior to the establishment of ICBC, many people could not obtain automobile insurance from the private insurers. In many instances not every person carried automobile insurance, which meant the public was not protected from automobile

related accidents. With the establishment of ICBC, the public in British Columbia is protected against automobile related accidents since all vehicles now carry third party liability.

In the case of British Columbia Resources Investment Corporation, an analysis of some of the conditions that were prevalent prior to the creation and following the creation of this corporation relative to how the public interest is being affected discloses certain factors. It reveals that prior to the establishment of BCRIC, all of the people of British Columbia owned the public holdings that became part of BCRIC and shared in the benefits and costs and now five shares out of one hundred million are owned by every eligible resident of British Columbia who applied for these shares. The bulk of the shares were purchased by a small minority of British Columbians and people from other parts of Canada who were financially able to purchase shares. In other words, at the time of the distribution and sale of the shares, 10.3 per cent of the outstanding shares were owned by slightly more than two million residents of British Columbia, 4.7 per cent of the outstanding shares were owned by all of the people of British Columbia - these shares were under government ownership, and approximately 84 per cent of the shares were owned by an estimated 170,000 shareholders.¹⁰ The profits or losses realized by BCRIC will now be shared by those people in proportion to their shareholdings. To date these shareholdings have

been profitable. While all of the people of British Columbia had originally purchased the public holdings that became part of BCRIC, these same people helped finance the government's free shares offering, which cost an estimated \$20 million.¹¹ In addition, the Government claimed that the establishment of British Columbia Resources Investment Corporation would avoid a conflict of interest situation since the government is in certain instances both the landlord and tenant. For example, in the forest industry the government owns the Crown lands from which forest firms and companies such as Canadian Cellulose lease lands. However, since the government still owns shares in BCRIC, this conflict of interest situation has not been entirely rectified.

The clientele interest which is served by the three enterprises studied reflects that both the Insurance Corporation of British Columbia and British Columbia Hydro and Power Authority basically provide equal services to the majority of the people of British Columbia; whereas, if the five free shares are discounted, the British Columbia Resources Investment Corporation provides benefits only to those who invest in that corporation.

Conclusions

While the circumstances surrounding the creation of each public corporation varies and while each crown corporation and each shared enterprise has its own unique characteristics, the examination of these three case studies has identified some common features.

As in the case of the federal political parties, the two main political parties in British Columbia attempt to function within a mixed economy. The political parties in British Columbia differ somewhat on the degree to which the government should intervene in the economy and the degree to which this intervention should be in the form of public ownership. Nevertheless, both political parties have created public corporations. The New Democratic Party's general philosophy tends towards government ownership if it is believed to be necessary, but not necessarily government ownership. On the other hand, the Social Credit Party promotes private enterprise as opposed to public enterprise. However, the Social Credit Party, like the New Democratic Party, creates public corporations if it believes private enterprise is unwilling or unable to carry out government policy.

An analysis of these case studies reveals that when a government creates a public enterprise, it may do this for a number of reasons. While the government rationalizes the creation of a public enterprise on the premise that this is a means to serve the public interest, it is found that the manner in which each specific public corporation is to serve the public interest varies, and these variations may include the requirement that the public enterprise implement an electoral promise or carry out a government policy the private sector refused to carry out, should not be expected to carry out, or was unable to carry out. The foregoing are general

statements as to what might be expected to be the government's rationale for establishing a public enterprise based on the three case studies.

It was found from the case studies that a crown corporation in British Columbia operates under a statute of the provincial legislature, it is wholly owned by the province, ministers sit on its board of directors, the corporation reports to a minister, borrowings have provincial guarantees, and annual financial reports have to be presented to the minister who is responsible for the corporation and who in turn lays this report before the legislature.

In the case of the shared enterprise examined, the British Columbia legislature passed enabling legislation to create the corporation and it operates under both the Companies Act and a statute. No minister sits on its board of directors; consequently, it is freed from the political intervention into board decisions to which crown corporations are subjected.

The structure of a public corporation plays an important role in the interrelationship between the government and the public enterprise. The structure sets out, among other things, the degree to which the corporation is accountable to the government and the legislature and ultimately to the public and the manner in which government policy is to be implemented.

A summary of some of the questions raised in this paper in regard to the structure of the public enterprise include the question of the need for the public corporation to be

more accountable to the legislature and ultimately to the people of the province and the need for more autonomy of the public enterprise. There is also the question of the advisability of having the borrowings of the public corporation backed by provincial guarantees. In addition, there seems to be a need to question the way in which rates are determined and to question the expropriation powers of the public corporation.

In the final analysis, the government can change the structure of public corporations. Therefore, if the government perceives any of the features that have been questioned to be detrimental, it has it within its power to rectify the situation.

An examination of the benefits to be derived from the creation of the public corporations this paper studied reveals that in the case of British Columbia Hydro and Power Authority, this corporation provides power to almost all areas and to the majority of the people of the province. Rates have been standardized throughout the province. In addition, it has helped develop the province through the provision of abundant electricity. In the case of the Insurance Corporation of British Columbia, this corporation insures all vehicles and its automobile insurance premium rates are generally lower than the private sector automobile insurance industry's rates.

While British Columbia Hydro and Power Authority and the Insurance Corporation of British Columbia provide essential

services, the provision of electricity and the provision of automobile insurance, the British Columbia Resources Investment Corporation is basically an investment company. The people of British Columbia have been encouraged by the present Government to invest in this corporation. If the free shares are discounted, a minority of the people of British Columbia own shares in this corporation; therefore, this enterprise serves its shareholders which are a small segment of the total population of British Columbia.

From an analysis of how the public enterprise serves the public interest in the services rendered to its clientele, it was found in the three cases examined that the clientele interest which is served by the crown corporations is the majority interest while the shared enterprise that was examined serves the minority interest.

This thesis has examined the concept of public enterprise as it was applied in three case studies in British Columbia relative to the public interest that it served. It has identified three main areas in which the concept of public interest was used. Firstly, it examined how this concept was used by the government which created the public enterprise. Secondly, it identified ways in which this concept related to the structure and operation of the instrument created by the government relative to how this enterprise was accountable to the legislature and to the public. Finally, it evaluated

the concept in terms of the services it rendered and to the clientele interest that it served.

From an examination of these three case studies of British Columbia's public enterprises, it is concluded, among other things, that each government's interpretation of how and in what way the public interest will be served varies. This is in agreement with the way in which Flathman describes the use of the concept of public interest. For instance, he stated that the public interest cannot have a meaning which is applicable to all policy decisions; however, he said that in specific instances a non-arbitrary descriptive meaning for it can be determined.¹² The structure and operation of the enterprise plays a significant role in the accountability of the corporation to the legislature and to the public and, to a large extent, it determines the clientele interest that is to be served.

It would seem from this study that governments are reluctant to change the basic structure of an established public corporation if the corporation provides services to the majority of the people of the province. On the other hand, it would seem that when the public holding does not provide essential services to all of the people of the province and its operation is localized, a government would be more favorably disposed to change its basic structure, which might include the form of ownership.

This thesis has attempted to answer some questions relative to the public enterprise and the public interest. It has, however, raised many questions which will have to be left to another writer to examine. As more literature becomes available on the subject of public corporations in British Columbia, this task should become less onerous.

FOOTNOTES TO CHAPTER V

¹British Columbia, Legislative Assembly, Debates, 2 April 1979 (Victoria: Queen's Printer, 1979), p. 258.

²Canada, Ministry of Supply and Services, Royal Commission on Financial Management and Accountability, Final Report, (Lambert Commission) (Ottawa: Queen's Printer, 1979), p. 329.

³Ibid., p. 358.

⁴Ibid., p. 331.

⁵D. Gracey, "Public Enterprise in Canada", in Public Enterprise and the Public Interest, ed. A. Gelinas (Toronto: Imperial Press Ltd., 1978), p.28.

⁶British Columbia Resources Investment Corporation, Prospectus (Vancouver: Evergreen Press, 1979).

⁷Canada, Royal Commission on Financial Management and Accountability, p. 321.

⁸British Columbia, Royal Commission on Automobile Insurance, Report by the Commissioners (Wootton Chairman) (Victoria: Queen's Printer, July 30, 1968), p. 381.

⁹Vancouver Sun, February 19, 1980.

¹⁰British Columbia Resources Investment Corporation, Remarks for the Toronto Society of Financial Analysts by David L. Helliwell, President and Chief Executive Officer, BCRIC, September 27, 1979.

¹¹British Columbia, Legislative Assembly, Debates, 27 March 1979 (Victoria: Queen's Printer, 1979), p. 76.

¹²R.E. Flathman, The Public Interest: An Essay Concerning the Normative Discourse of Politics (New York: John Wiley and Sons, Inc., 1966), p. 82.

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