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## **BALANCING ELEPHANTS: CALCULATING SASKATCHEWAN'S ROI MEADOW LAKE PULP MILL**

**BY GERARD A. LUCYSHYN**



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## EXECUTIVE SUMMARY

People in modern societies generally view unfair lending practices with considerable disdain, in fact, recently there has been intensified efforts in regulatory control to prevent this type of behaviour. For example the government of Saskatchewan has recently introduced tighter restrictions in the Payday Loans Regulations. These changes will reduce the maximum allowable cost of borrowing and limit the fees borrowers can be charged on dishonoured payments.<sup>1</sup> The changes are meant to ensure that lenders do not take advantage of borrowers, while payday lending companies generally provide high-risk lending services to individuals, businesses are also subject to the same types of practices.

The financial story of the Meadow Lake Pulp Mill causes many Saskatchewan residents to cringe and shake their heads in disdain. Simply put, it has historically been recorded in the minds of Saskatchewan residents as the "*worst deal in the history of Saskatchewan.*" The government of Saskatchewan lost their entire investment on this venture close to \$1B, if one were to accept the mainstream media, defensive politicians, and special interest groups' version of the story. However, the actual loss was only about 20 per cent of what Saskatchewan residents were lead to believe. Even more interesting was the type of lending practices that the subsidiaries of the Crown Investment Corporation were engaged in between 1991-2007, during the fourteen years that the Province held a financial investment in the Meadow Lake Pulp Mill.

The Saskatchewan government's actual loss was closer to \$316.5M (\$259.1M in investment and \$57.4M in operational losses) over 14 years. The rest was unpaid interest that was written-off, \$649.7M, that was acquired under the lending practice of negative amortization.

***"We must not let rulers load us with perpetual debt."***

*- Thomas Jefferson*

## COMPOUND INTEREST: THE EIGHTH WONDER OF THE WORLD

***"During an interview at the Institute of Advanced Study in Princeton, a reporter asked him [Albert Einstein] what he thought was man's greatest invention. Einstein paused and then replied 'Compound interest.'"***<sup>2</sup>

*- Bank Performance Annual,  
Warren, Gorham & Lamont 1978*

The concept of paying interest on borrowed money has been present throughout history. In fact, claiming interest was not looked upon favourably and the amount of interest one was allowed to charge was often controlled by monarchs and governments. If the interest that was being charged was higher than allowed, the lender could be charged with usury. The term "usury" evolved to include any practice in making unethical or immoral monetary loans that unfairly enriches the lender. The act of collecting interest on borrowed money is not disdainful in and of itself, charging interest is meant to cover the lender's risk, costs, and forgone returns on the money they have borrowed. In fact, without being able to charge interest this would severely compromise investment. Most investment decisions are calculated and viewed as the time value of money.

The concept of *time value of money* first appeared in 1285, when Giles de Lessines (a student of St Thomas Aquinas) wrote "*future goods are not valued so highly as the same goods available at an immediate moment of time, nor do they allow their owners to achieve the same utility. For this reason, it must be considered that they have a more reduced value in accordance with justice.*"

This concept was further developed when Martin de Azpilcueta Navarrus, the 'father of the time value of money', wrote "*a claim on something is worth less than the thing itself, and ... it is a claim that which is not usable.*"<sup>3</sup>

The concept of the time value of money describes the greater benefit of receiving money in the present rather than in the future. This concept explains why interest is charged on a deposit or a debt. Interest is charged to compensate the depositor or lender for the time value of their money. This concept also applies to any investment. Investors would only be willing to forgo spending their money in the present if they – *expect* – a favourable return in the future.

In any investment or business venture the portion of money that is supplied by the owners or by lenders is money that the owners and lenders have used in the venture instead of some other alternative, therefore an expectation for a return for the use that money is essential. If there was no chance of receiving a return, then neither owners nor lenders would borrow money.

Therefore, the return or interest on money that is invested or borrowed can be broken into two components, *pure interest* and *risk premium*. *Pure interest* is the anticipated return that is equal to the rate of return on the safest alternative investment that the money would have otherwise been used for, such as government bonds. The *risk premium* is the anticipated return that is equal to the amount of compensation the lender is to receive for the *risk of losing* all or a part of the investment.

Common sense dictates that all investments in Meadow Lake Pulp would have been done in anticipation that a return would be earned to cover both the *pure interest* and *risk premium*. Governments tend to monitor these situations very closely so that unethical or immoral monetary loans are not being charged unfairly enriching lenders.

## ECONOMIC DIVERSIFICATION: SASKATCHEWAN'S ECONOMIC OBJECTIVE IN THE 1980'S

Since World War II, like other provinces, Saskatchewan has experienced a steady migration of its population from rural areas to urban communities. During the early period of this migration, the dominant political party to hold government was the Saskatchewan Co-operative Commonwealth Federation (CCF) led by Tommy Douglas (1944-1961). The CCF eventually reformed itself into the New Democratic Party Saskatchewan and currently sits as the loyal opposition in the legislative assembly. Through most of the Province's history, Saskatchewan governments have predominantly been socially democratic in orientation. Social democracy has often characterized and boasted about its commitment to policies aimed at curbing inequalities, oppression of the underprivileged, and in fighting poverty.

One of the most tumultuous economic periods in Saskatchewan's history took place in the 1960's. The province would experience extremely large fluctuations in GDP growth ranging from -5 percent to +15 percent. This economic roller coaster affected future governments in Saskatchewan to pursue an economic diversify plan. The plan was simple to *diversify the exploitation* of natural resources.

During the 1970s, the NDP (following the CCF) government began the expansion of the agricultural sector along with venturing into potash, petroleum, and uranium as alternative resources. By the end of the 1970s, Saskatchewan's exports of natural resources including grain had increased fivefold and the population swelled to historical highs. It was commonly agreed by all political parties that the program of diversifying the economy was generally favourable to the province and to sustain economic growth into the future it was necessary to continue to expand resource exploitation.

In the 1982 general election there was a general agreement between political rivals that to have sustainable growth meant expansion of exploitation

***"The economic challenge during the 1980's will be to continue to expand primary production and to generate further benefits by increasing the processing of our resources in Saskatchewan. This economic strategy is central to ensuring a high quality of life for all the citizens of our province."***<sup>4</sup>

- Alan Blakeney, Premier November 1981

of the natural resources. However, the battle was largely ideological on how best to accomplish this through public-owned companies or privatization. One group in the NDP argued for more *government guided involvement* and another group along with the PC party argued for less government involvement and more privatization. In the end Saskatchewan voters, overwhelming chose Grant Devine and the Progressive Conservatives.

The battle between public-owned and privatization is not unique to Saskatchewan, in fact, it is a common debate throughout most modern countries. From an economics perspective, the "crowding out" effect is at the core of the argument which is the idea that higher public investment "crowds out" private investment irrespective of the financing mechanisms (levying taxes or issuing debt). The main question is how much should government invest? And does government investment complement or hinder private investment? The political ideologies of the *left* and the *right* have opposing views on this fundamental issue.

Generally, socialism argues for more public investment and less private investment, while conservatism argues for more private investment and less public investment. Studies of developing countries have shown that indeed public investment is, in fact, complementary to private investment. But, private and public investments have an opposite effect in developed countries, such as Canada. The difference is attributed to structural differences in the economies. A developing country's public investment in necessary infrastructure, such as roads, boosts private investment. But, a developed

country's investment unfairly competes with private sector investments.<sup>5</sup> Unfair competition arises since government has the power to indiscriminately tax citizens to raise revenue, whereas private sector companies are at the mercy of the market place.

Grant Devine and the Progressive Conservatives believed that the best way to increase the natural resource production in Saskatchewan was to reverse the government-guided approach which had been taken by former NDP government, and pursue more private investment and less public investment. This ideology would prove to be shocking to those deeply entrenched in Saskatchewan's status quo of public investment. The Devine government's plan was to move towards privatization, which unfortunately would be undermined by the worldwide economic turmoil of the 1980's. However, some of the decisions made in the 1980's only started to bear fruit recently, long after the Devine government lost the 1991 election to a renewed NDP government.

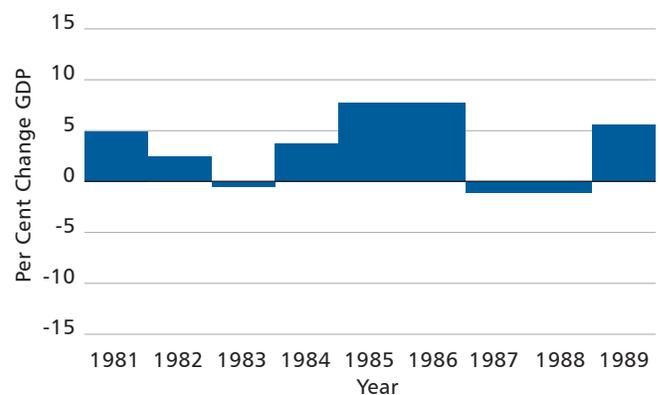
***"I have no doubt that undue reliance on government has hampered the province's growth by reducing private investment. In 1981, for example, 35 percent of total investment in Saskatchewan was publicly funded. The proportion in Canada as a whole was 26 percent; in Alberta it was only 19 percent. With just over twice our populations, Alberta had almost five times Saskatchewan's amount of private investment"***<sup>6</sup>

*- Grant Devine, Premier November 1982*

Over the decade of the 1980s, Saskatchewan experienced two recessions and only one recovery. The second recession, 1987-1988, was the sharpest downturn in twenty-five years. With record levels of production in agriculture at the beginning of the 1980's, Canada and United States would flood the world grain market causing prices to plummet. In addition, Saskatchewan farmers would be ravaged by drought, snow, excessive rain, and grasshoppers for the most of the 1980s. The international economic downturn affected all the other diversified industries in the province. Oil, uranium, and potash prices all decreased as a result of an oversupply of these minerals in the international markets.<sup>7</sup>

Figure 1

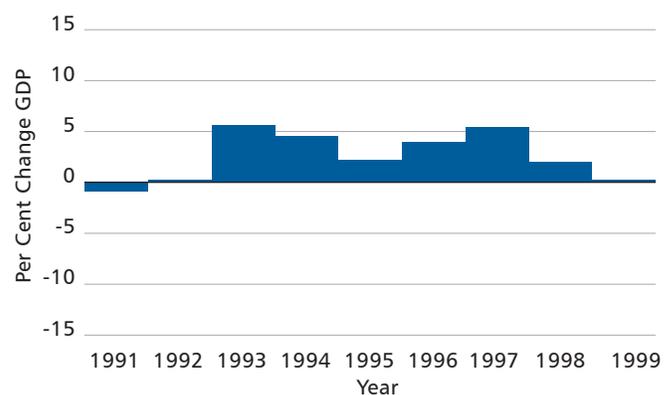
### Historical GDP for Saskatchewan 1980's



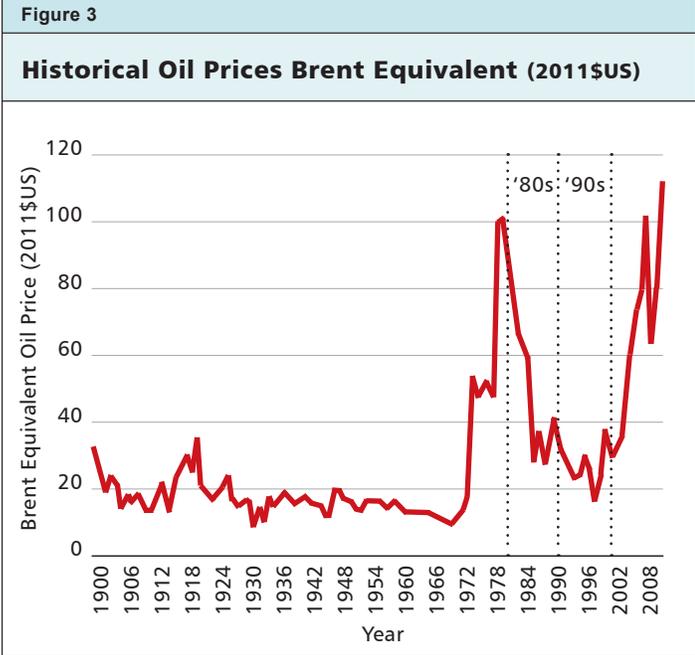
Data Source: Saskatchewan Economic Review 1980-1990.

Figure 2

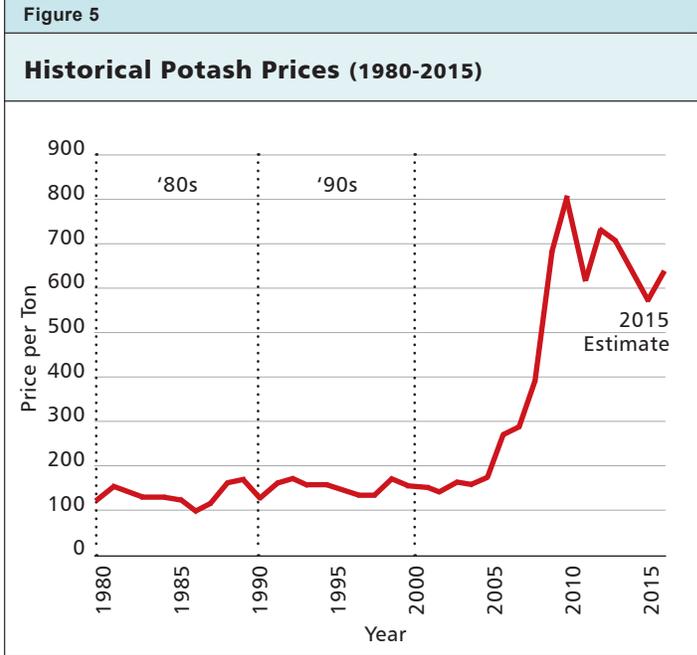
### Historical GDP for Saskatchewan 1990's



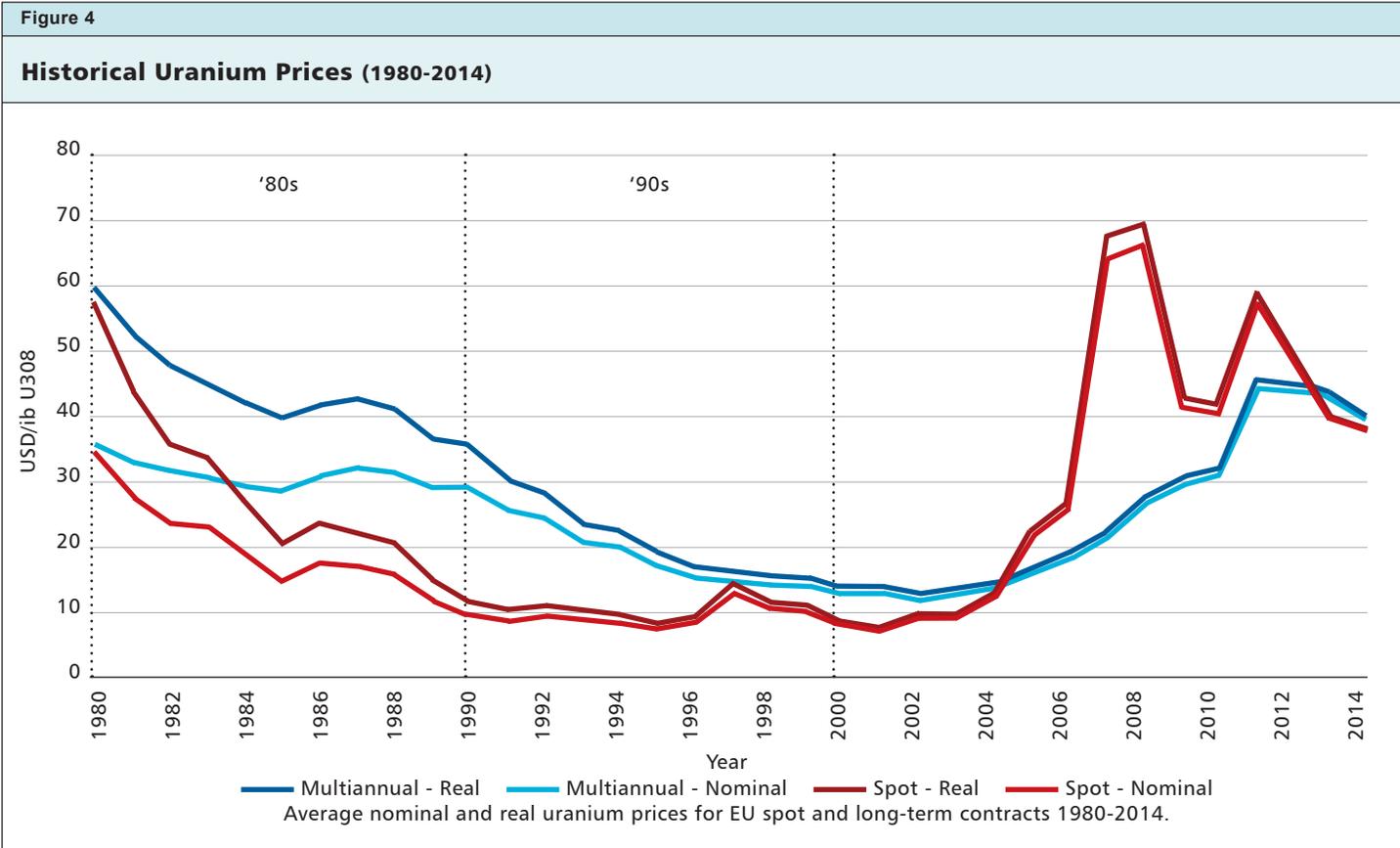
Data Source: Saskatchewan Economic Review 1990-2000.



Source: Historical inflation adjusted oil price per barrel, (Brent equivalent in 2011\$), based on amounts shown in BP's 2012 Statistical Review of World Energy.

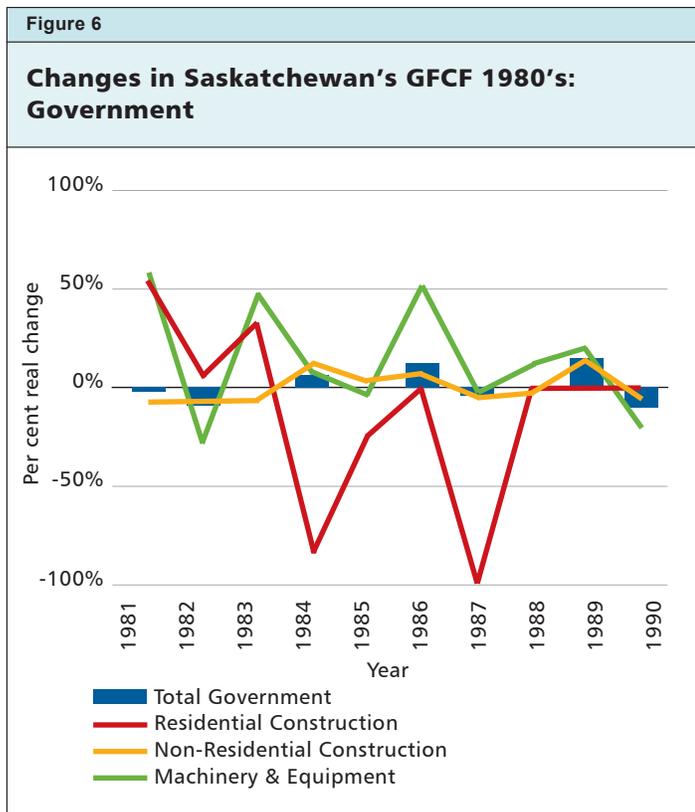


Source: U.S. Geological Survey.

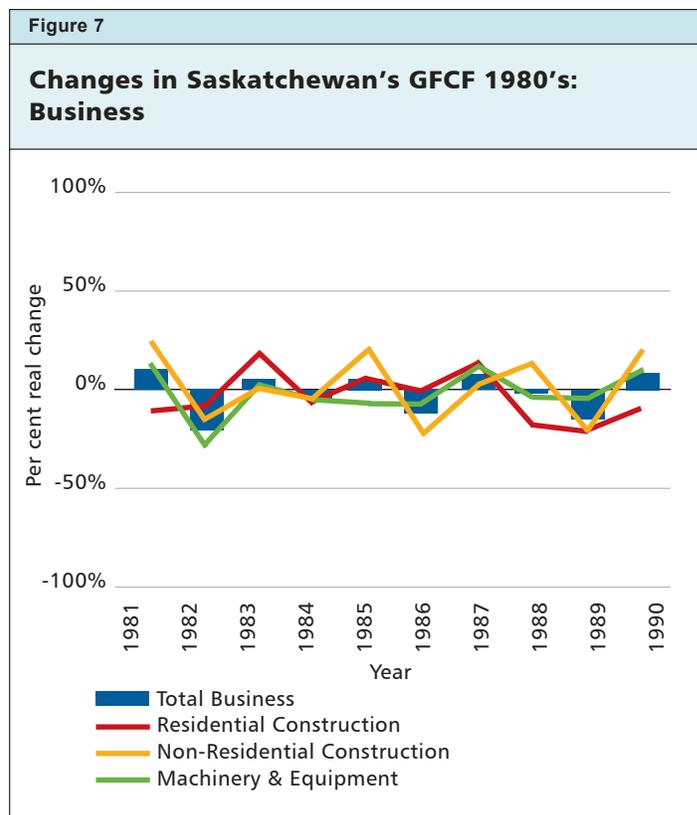


Source: See [http://www.diw.de/dev/drw\\_01.c535933.de/pressev/drw\\_roundup/nuclear\\_power\\_and\\_the\\_uranium\\_market\\_are\\_reserves\\_and\\_resources\\_sufficient.html](http://www.diw.de/dev/drw_01.c535933.de/pressev/drw_roundup/nuclear_power_and_the_uranium_market_are_reserves_and_resources_sufficient.html).

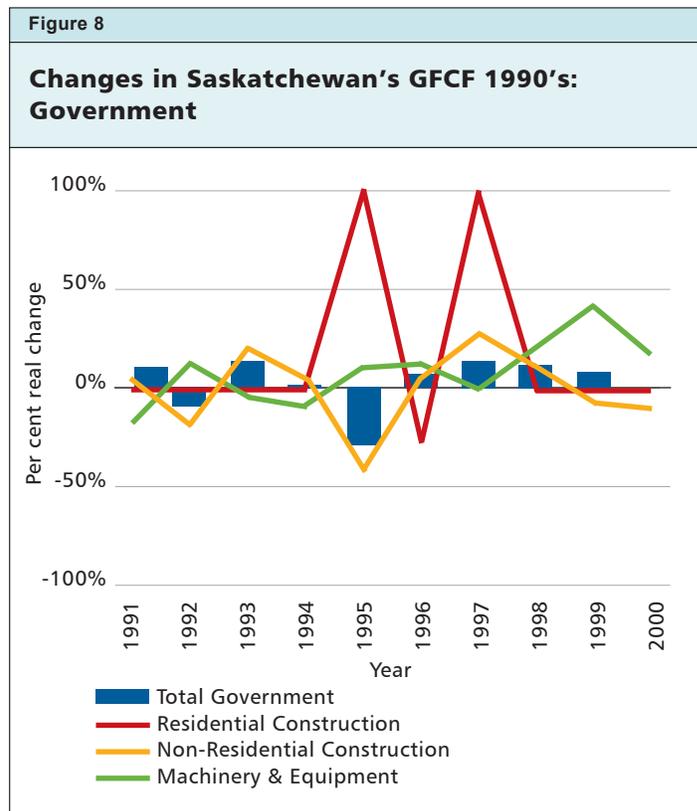
Gross fixed capital formation (GFCF) in Saskatchewan was at \$4.7B in 1990 and would decrease by 9.93 percent by the end of the decade finishing at \$4.2B. Investment distribution would start out in the 1980s with government investment at 12 percent of GFCF and business investment at 88 percent. By the end of the decade, 2 percent of GFCF would be redistributed from business investment to government investment. The 1990 GFCF distribution was government investment at 14 percent and business investment at 86 percent. The largest contributing factors to the change in GFCF were: a very large decrease in government residential construction of nearly 100 percent, a 60 percent increase in government investment in machinery and equipment, and a 28 percent decrease in private investment in machinery and equipment.



Source: Saskatchewan Economic Review.

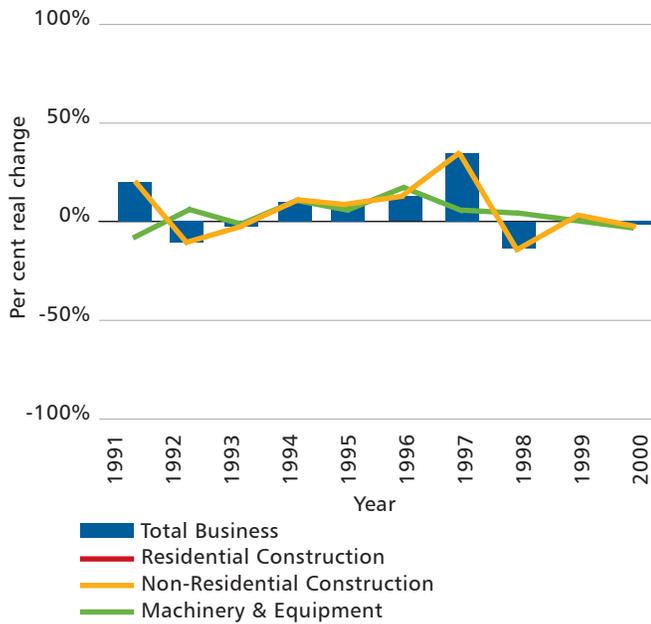


Source: Saskatchewan Economic Review.



Source: Saskatchewan Economic Review.

Figure 9

**Changes in Saskatchewan's GFCF 1990's:  
Business**

Source: Saskatchewan Economic Review.

A worldwide recession, combined with an oversupply in all the economic base markets, low commodity prices, historical economic slowdown, and unreasonably high interest rates all stunted Saskatchewan's GDP growth.

***"Saskatchewan continues to depend heavily on international markets for our primary products. This was the case ten years ago and it remains true today. We cannot hide from the world marketplace, but we can meet it head-on with greater variety of competitive goods and services. I am totally committed to long-term economic development and diversification to enhance the stability of the economy and provide greater job opportunities."***<sup>8</sup>

- Grant Devine, Premier November 1982

## PULP, WORLD MARKETS AND GLOBAL AFFAIRS

***"The unread story is not a story; it is little black marks on wood pulp. The reader, reading it, makes ... a story."***

*- Ursula K. Le Guin*

Pulp is a term used to describe the main ingredient in papermaking. Paper was originally made from discarded fabrics, such as clothing. Rags would be shredded and mixed with water, and the mixture would be pulverized into a slush. Once the slush reached the consistency of thick molasses, it was rolled onto screens in very thin layers and left to dry. Once the thin layers were dry enough to remain intact, they would be interlaced with felt sheets and stacked. The stack would be pressed to expel the remaining water, and the paper sheets would be left to finish drying. Once the sheets were dry the linen paper was finished and ready for use.

The United States was the main paper supplier to Canada until the early 1800's when Canada's pulp and paper industry began to be built. As the population of Canada increased, the demand for paper, specifically newspaper, increased. In 1867, the Canadian papermaker and newspaper publisher, John Riordon, revolutionized papermaking by substituting wood for cloth. Riordon would later earn the distinction as the father of the Canadian newsprint industry and be credited with the invention of wood pulp. Wood pulp is simply the removal of the fibrous material from wood chips by using either a chemical or mechanical process.<sup>9</sup>

The same year Riordon revolutionize papermaking, the British North American (BNA) Act was passed. Under the BNA Act provinces were given the authority over crown resources, including crown land, minerals, water, and forests. Provincial governments did not waste time in exercising control over these natural resources. Both the timber and hydro industries would be subjected to agreements to lease the land rather than to buy the

land. Provincial governments in Ontario, Quebec, and British Columbia initiated such arrangements which became the norm for other provinces.

Soon Canada burst onto the world market as a major pulp supplier to both local and foreign paper companies. Canada's abundance resources of forests and water would ensure that it would become the leading supplier of pulp to the market in the United States. Between 1900 and 1940 the Canadian pulp and paper capacity increased by approximately 6500 percent transforming the small diversified industry with several producers into an industry dominated by a few large firms, such as Canada Power and Paper, Canadian International Paper, Price Brothers, Abitibi Power and Paper, and Pacific Mills. There was a great deal of foreign ownership of these companies in which American newspapers, such as the *Chicago Tribune* and the *New York Times*, were major shareholders.

The 1950's and 1960's would bring another revolutionary change to the pulp and paper industry. Improved technology allowed a variety of tree species to be used to produce pulp. Foreign companies established new pulp mills in the country.<sup>10</sup>

Once again new technology would transform the industry in the 1980's with the development of new pulp making processes which were more efficient and more environmentally-friendly. The new pulp making processes were called *thermomechanical* and *chemi-thermomechanical*; the thermomechanical pulping (TMP) process uses a combination of heated wood chips and mechanical processes to pulverize the wood chips producing TMP pulp, and the chemi-thermomechanical (CTMP) process uses chemicals, heat, and grinding techniques to produce CTMP pulp.<sup>11</sup> With the adoption of these new processes, Canada would again become a world leader in forest stewardship and pollution control, and in fact the country emerged as the largest producer of paper grade market pulp in the world.<sup>12</sup>

Most paper product consumers and the majority of the public-at-large may not fully appreciate the significance of the technological changes that occurred in the 1980s with the development of

the CTMP and TMP pulping process. Prior to these techniques, the most common process used in the pulp industry was the kraft process, which converted wood into wood pulp by treating wood chips with a hot mixture of sodium hydroxide and sodium sulfide. This mixture releases an unpleasant odour and produced substantial liquid waste. Most people may recognize this process if they have ever driven past older pulp mills and noticed a repugnant odor and witnessed an enormous volume of white liquid in holding ponds around those types of mills.

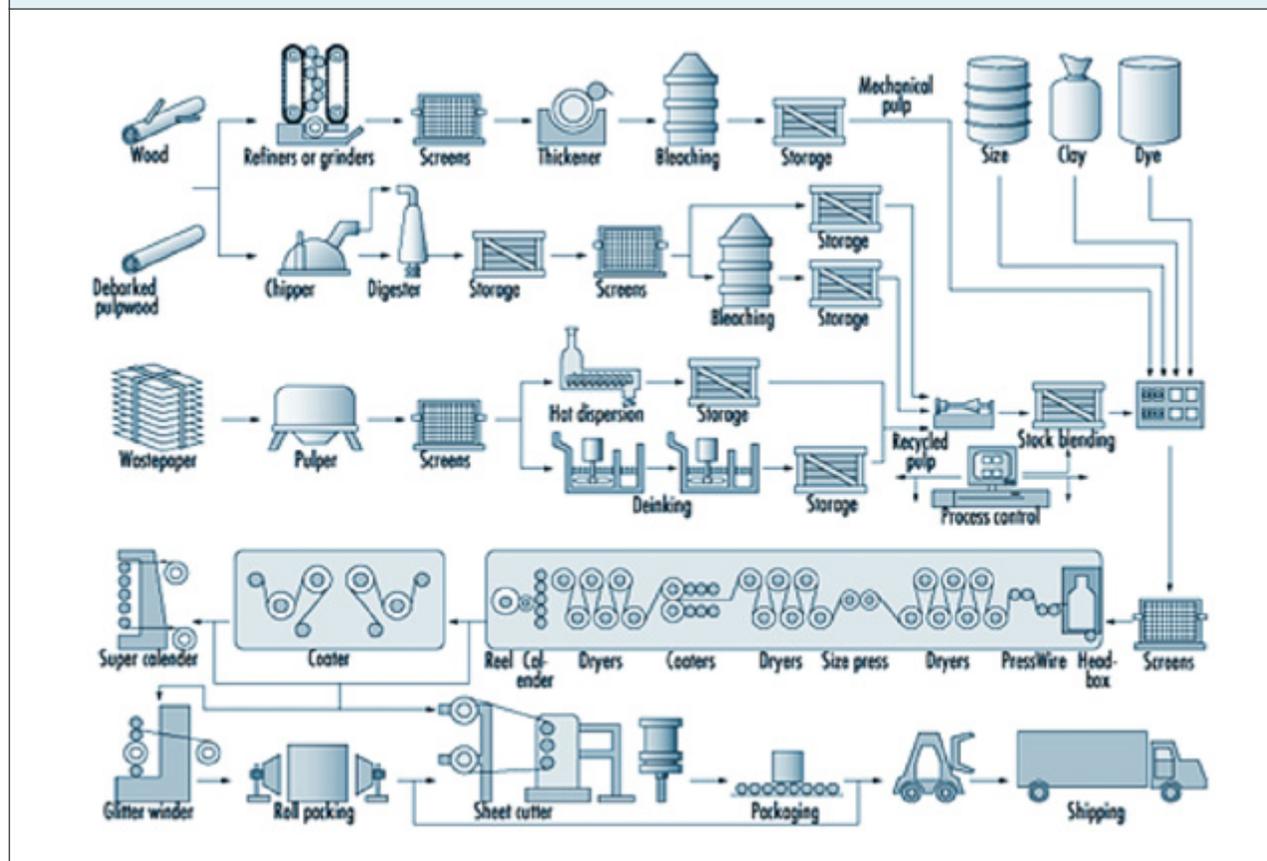
Kraft pulp is a high strength type of pulp and is the primary input in many products such as printing and writing papers, tissues, coffee filters, fiber cement, etc.<sup>13</sup> Typically kraft pulp and paper is brown, but it can be bleached to be white.<sup>14</sup> With the development of bleached chemi-thermomechanical pulp (BCTMP) in the late 1980s the volume of waste-water and the unpleasant odor drastically decreased.

BCTMP is more cost-effective to produce than kraft pulp and over time BCTMP has developed into premium quality pulp and is now used in everything from hygiene products to writing paper to paper-board. There are two types of BCTMP, hardwood BCTMP and softwood BCTMP. Hardwood BCTMP is made from aspen, birch, and maple and is generally used in writing and printing paper. Softwood BCTMP is made from pine and spruce and is generally used in shipping containers, grocery bags, and corrugated boxes. Both hardwood and softwood BCTMP can be mixed to achieve a particular desired strength, whiteness, and other required characteristics.<sup>15</sup> Hardwood BCTMP has come to dominate the pulp industry as it uses less pulp.<sup>16</sup>

Millar Western was the first company to establish a BCTMP mill in Canada, which was opened in Whitecourt, Alberta. By the end of the 1980's many BCTMP mills had been established, such as Fibreco, Temcell II, Cascades, and Consolidated-Bathurst,

Figure 10

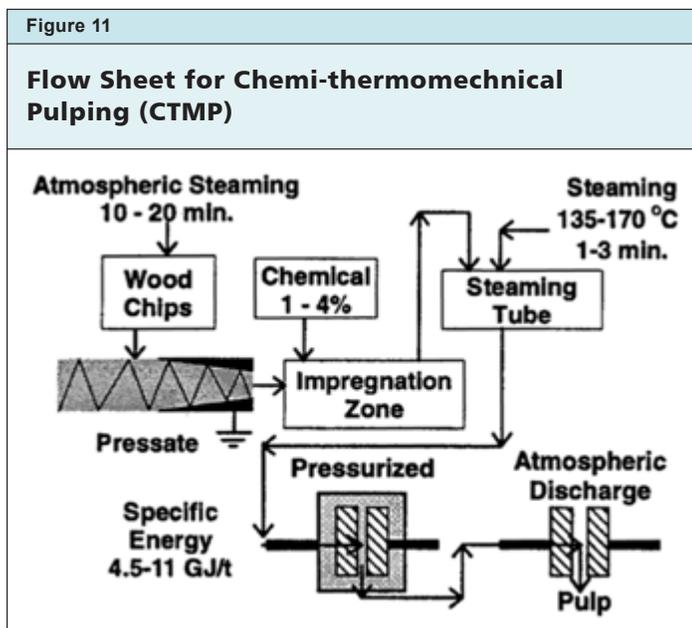
### Illustration of process flow in pulp and paper manufacturing operation



Source: Adapted from Weidenmüller 1984. See <http://www.ilocis.org/documents/chpt72e.htm>.

which were all vying to fill the insatiable demand for BCTMP. BCTMP was selling for \$630/ADMT (air dried metric ton), and the worldwide BCTMP capacity was approximately 1.9M ADMT/yr and was forecasted to grow by 50 percent to 2.8M ADMT/yr by 1991.<sup>17</sup>

BCTMP mills had become extremely common due to their lower capital costs, double production yields, lower manufacturing costs, higher bulk usage, and increased opacity and stiffness of their pulp *plus* these mills were more environmentally-friendly. Unfortunately, the market bubble ruptured, and as a result the price tumbled to \$330/ADMT in 1992, which devastated the world pulp market.<sup>18</sup>



Source: <http://www.fibrelab.ubc.ca/files/2013/01/Topic-3.3-Mechanical-Pulping-TMP-CTMP.pdf>.

Consequently, BCTMP prices would remain low until 2000, when the world capacity to produce BCTMP had expanded to 2.4M ADMT/yr with world consumption at 2.2M ADMT/yr there would be significant supply resulting in downward pressure on pulp prices. Canada had 74 percent of the world capacity and was the world leader in BCTMP production. With low energy costs, abundant wood stocks, and the pulp mills that were built in the 1970s and 1980s, put Canada in a great position to meet the world demand for BCTMP.<sup>19</sup>

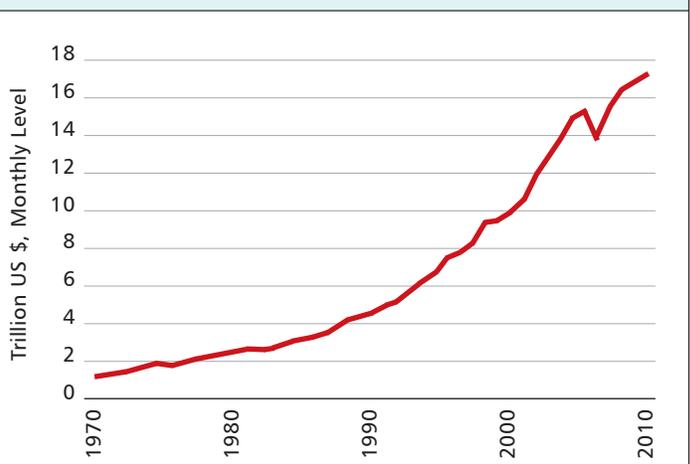
The consumption of BCTMP varies by country due to historical and structural reasons. In Europe, BCTMP is generally used in a range of paper and board grades but accounts for only 7 percent of the bleached pulp consumption. BCTMP is primarily

used in tissue and towel grades in North America. China, on the other hand, uses BCTMP mostly in cartonboard.<sup>20</sup> The BCTMP market is similar to other markets and is subject to the ebb and flow of consumption patterns.

In addition to fluctuations in consumption, several other global conditions had negative impacts on the pulp industry during the 1990s. Some examples include *trade liberalization, expansion of global commerce, the recycling movement, and the development of digital media*. Trade liberalization resulted from the General Agreement on Tariffs and Trade (GATT) and the establishment of the World Trade Organization (WTO), opening markets and trading potential around the world for Canadian products. Over the 1990s, global commerce expanded shifting manufacturing away from North America to Asia and Europe.<sup>21</sup> At the same time the recycling movement took root and became commonly accepted across North America, with 1993 being the first year that more paper was recycled than was sent to landfills.<sup>22</sup> During this time, the development of the Indonesian pulp industry took hold and there was also increased demand for cheaper pulp from China, who had become the world's fastest expanding consumer of paper and paperboard.<sup>23</sup> Last but not least, the *development of electronic media* had a serious effect. Electronic media would start the world down a path of transition from paper-based communications to paperless communications.<sup>24</sup>

**Figure 12**

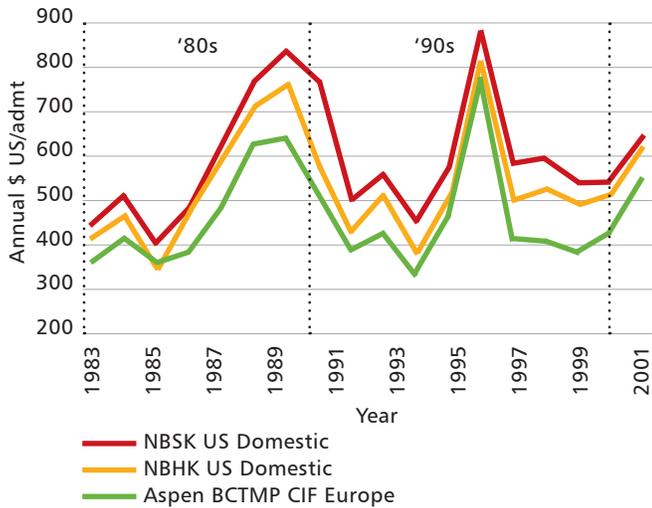
**Volume of Trade of Goods and Services for the World**



Source: See <https://thinkreality.com/lou-barnes-2015-outlook-housing-will-stay-thin-dependent-jobs-income/>.

Figure 13

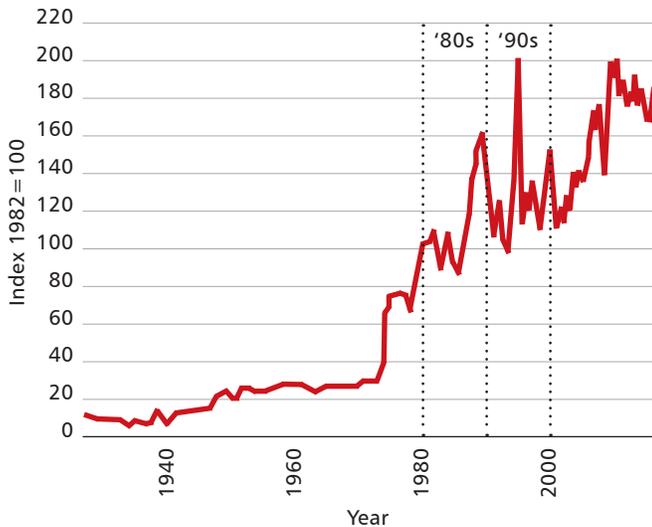
**Average Annual Pulp Prices (1983-2000)**



Source: See [https://legacy.risiinfo.com/db\\_area/archive/p\\_p\\_mag/2000/0005/feat2.htm](https://legacy.risiinfo.com/db_area/archive/p_p_mag/2000/0005/feat2.htm).

Figure 14

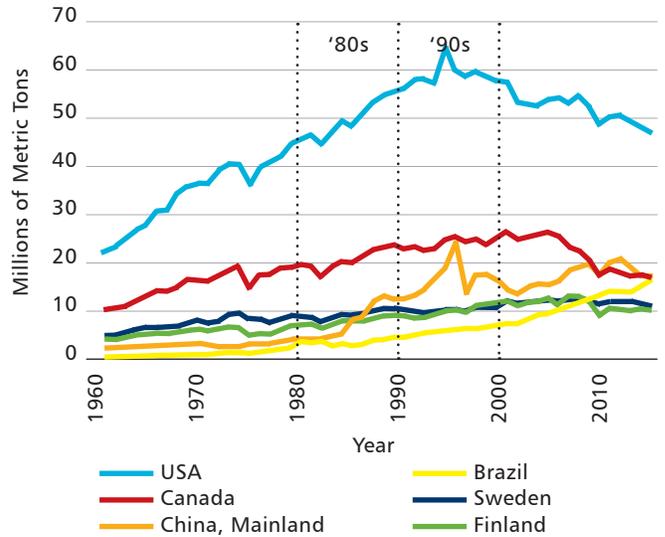
**Volume of Trade of Goods and Services for the World**



Source: See <https://fred.stlouisfed.org/graph/fredgraph.png?height=400&id=WPU0911&sh=1&width=600>.

Figure 15

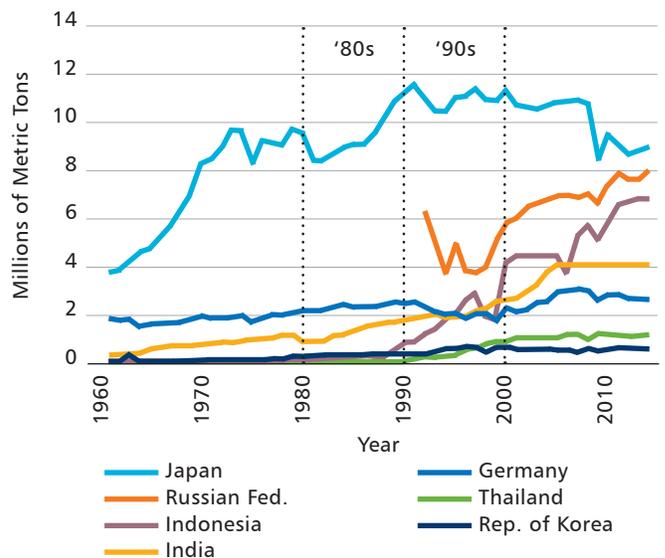
**Wood Pulp for Paper Production (Major Producers)**



Source: See <http://mainemeetworld.bangordailynews.com/2015/12/14/home/where-the-paper-industry-went/>.

Figure 16

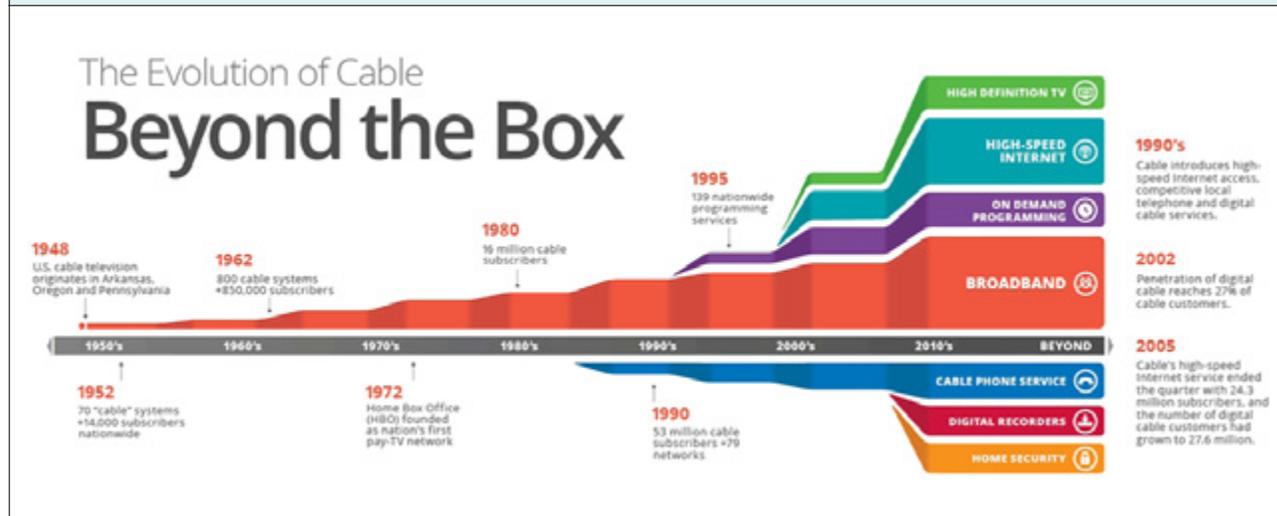
**Wood Pulp for Paper Production (Minor Producers)**



Source: See <http://mainemeetworld.bangordailynews.com/2015/12/14/home/where-the-paper-industry-went/>.

Figure 17

Digital Media History



Source: See <https://www.cable.org/learn/history-of-cable/>.

## A PARTNERSHIP WITH ALBERTA-BASED MILLAR WESTERN: MEADOW LAKE PULP MILL

***"I can only tell you, Mr, Chairman, that this pulp mill in Meadow Lake, Saskatchewan is a pulp mill that we should all be extremely proud of in Saskatchewan. This pulp mill is setting a precedent and a standard for pulp mills across North America. I'd say, Mr. Chairman, from an environmental point of view, and from a pulp mill industry point of view, the eyes of North America are on this pulp mill."***<sup>25</sup>

*- Grant Hodgins,  
Minister of the Environment 1990*

The building of a pulp mill in Meadow Lake began in 1971, under the premiership of Ross Thatcher, when the New York firm of Parsons and Whittemore were contracted by the Saskatchewan government to build a *sawmill*. The idea was that the *sawmill* would supply its excess byproduct, softwood chips, to the pulp mill in Prince Albert. At that time, the Prince Albert Pulp was a 30/70 joint venture between the Saskatchewan government and Parsons and Whittemore. In addition to building the sawmill, Parsons and Whittemore was also contracted to build a pulp mill in Meadow Lake. However, the pulp mill contract was *cancelled* in 1971 by the incoming NDP government led by Allan Blakeney.<sup>26</sup>

Ten years later, in 1981, the NDP Blakeney government acquired Parsons and Whittemore's stake in both Meadow Lake sawmill and Prince Albert Pulp converting both companies into crown corporations.<sup>27</sup> A year later, in 1982, the Progressive Conservatives led by Grant Devine defeated the Blakeney NDP government of Saskatchewan. As part of the Devine government's plan of

diversification through privatization, the new administration sold the Prince Albert Pulp Mill to Weyerhaeuser in 1984.<sup>28</sup>

The plan to build a pulp mill in Meadow Lake was revitalized and appeared on the Devine government's agenda in 1989. This time the government would enter into a partnership agreement with Alberta-based Millar Western. Millar Western had a long history of operations dating back to the 1920's and was, in fact, one of the first construction companies established in Western Canada. In 1988 Millar Western establish a BCTMP mill adjacent to its sawmill in Whitecourt, Alberta.<sup>29</sup> In 1990, the Devine government entered into the joint venture with Millar Western to build the long awaited pulp mill in Meadow Lake, but a year later, in 1991, the Devine government would be defeated by Roy Romanow and the NDP.

Following the election, the Romanow government would create the Financial Management Review Commission with a mandate to review the province's current financial position because of the changing international markets and low international commodity prices for agricultural products and natural resources. With economic uncertainty, political unrest, and changing markets, the province was heavily in debt.<sup>30</sup> After completing its review, the Commission recommended changes on how best to ensure modern provincial accounting practices. These changes included adopting the guidelines established by the Public Sector Accounting and Auditing Committee (PSACC), a committee of the Canadian Institute of Chartered Accountants. The changes would show that the Provincial accumulated debt was not \$3.6B as stated under the previous system, but was \$7.5B and the 1990-1991 deficit was \$975M and not \$360M. These changes would now require all government-controlled organizations, including Crown Corporations, have their gains and losses reflected in the Province's financial statements. PSACC also recommended that "*valuation allowances were to be used to adjust the value of financial assets.*"<sup>31</sup>

**"As of October 1, 1991, the Province has invested \$317M in these two projects [Meadow Lake Pulp and the Bi-Provincial Upgrader] ... we noted that recent economic circumstances are significantly different than was anticipated when the original forecasts were prepared. Therefore, these investments must be closely monitored to ensure current trends affecting some of the underlying economic assumptions do not reduce the values of these investments. We also caution that, because the investments have been valued in accordance with a long-term view of market and economic conditions, the Government should be careful not to overreact to short-term commodity fluctuations."**<sup>32</sup>

- Financial Management Review  
Commission 1992

The Meadow Lake Pulp mill joint venture would continue to go ahead under the Romanow government. The Saskatchewan government would invest \$9.8M into the venture through CIC Pulp Inc., a newly created subsidiary of the Crown Investment Corporation (CIC). CIC Pulp Inc. would hold 49 percent ownership. Millar Western would invest \$10.2M for 51 percent ownership. The Crown Investment Corporation Industrial Interests Inc. (CIC III),<sup>33</sup> another subsidiary of the Crown Investment Corporation, would grant \$50M as a "non-repayable infrastructure" contribution to the venture to be used to build roads and infrastructure to facilitate the pulp mill operations.<sup>34</sup>

CIC III would also provide additional financing of \$191.5M in the form of a long term loan that was not due until 2014. By December 1992, the construction costs came in slightly lower than anticipated so only 97.3 percent (\$186.3M) of the financing was advanced. The financing was structured such that – *all repayments* – of principal and interest were subject to the pulp mill's *cash availability*. The financing was secured by a fixed-charged participating debenture.<sup>35</sup> The fixed-charged participating debenture was backed by a security agreement on all assets of every kind owned or acquired by Meadow Lake Pulp mill (MLP). In addition, CIC III provided a guarantee for 49 percent (\$980,000) on a \$2M line of credit for MLP.<sup>36</sup> The remaining financing of \$100M was provided by a chartered bank in the form of a long-term loan secured by interest on all MLP assets. Eventually in 1995, the \$100M loan would be converted into \$87M US owing.<sup>37</sup>

Table 1

**Meadow Lake Pulp Initial Investment and Financing Arrangement**

	Government of Saskatchewan (CIC Pulp & CIC III)	Millar Western	Chartered Bank
Meadow Lake Pulp			
Ownership	49%	51%	
Equity Investment	\$9.8M	\$10.2M	
Infrastructure Contribution	\$50M		
Long-Term Loan	\$186.3M		\$100M

Data Source: Annual Reports Crown Investments Corporation, 1990-2007.  
See <https://www.sec.gov/Archives/edgar/data/203098/000020309804000020/public-accounts.htm>.

Construction of the Meadow Lake Pulp mill began in March 1990 and was completed by January 1992 with commercial operations beginning in November 1992.<sup>38</sup> The final construction was estimated at \$361.5M, however, the project's actual cost was \$5.3M under budget. Construction of MLP created 1.65M man hours of employment and created 180 new permanent jobs and approximately 150 new jobs in the surrounding woodlands. Note that a bulk of the construction costs were dedicated to environment protection.<sup>39</sup>

The mill is located 9.5 km east of Meadow Lake and was one of the world's first *zero effluent* chemi-thermomechanical pulp (CTMP) mills that used 100 percent aspen as its source of fibre. MLP was designed such that it does not discharge any effluent into nearby rivers or streams and producing much less toxic dioxins<sup>40</sup> or noxious odours than other pulp mills. The amount of water that is necessary to operate MLP is approximately 80 percent less than what is usually required for other CTMP mills.<sup>41</sup> At the commencement of operations MLP had the capacity to produce 240,000 tonnes of hydrogen peroxide bleached chemi-thermomechanical wood pulp per annum.<sup>42</sup>

Within a year of commencing operation, October 1993, MLP was sideswiped by low pulp prices. The company's revenues dissolve and MLP experienced cash flow deficiencies. To solve its cash flow deficiency, MLP would sell its water treatment facility to Millar Western to cover its operational costs. Millar Western gave MLP the option to repurchase the water treatment plant by June 1995 if its cash flow deficiency problem turned around. By the end of 1994, MLP borrowed an additional \$4.5M from a commercial bank to increase its capacity by 10 percent, up 265,000 tonnes.<sup>43</sup>

Pulp prices would temporarily spike in 1995, allowing MLP the cash flow to again increase its production capacity by 13 percent up to 300,000 tonnes per annum at a cost of \$36.5M, which was self-funded. The second expansion would install new wood chip handling system and two high consistency bleaching systems improving the wood utilization and reducing the mill's use of chemicals and producing a brighter grade of pulp.<sup>44</sup>

In addition, MLP was able to repurchase its water treatment plant from Millar Western. However, the spike in pulp prices were short lived and returned to low levels the next year. MLP would continue to lose money year after year until 1999 and 2000.

On June 14, 2001 MLP refinanced a long-term debt with Sun Life Financial and Ontario Municipal Employees Retirement System (OMERS), as part of this refinancing agreement, CIC III guaranteed MLP's long-term debt payments to Sun Life Financial and OMERS up to a maximum \$80M, with a payout of \$2.0M by the end of 2002.<sup>45</sup>

The CIC would be reorganized into Investment Saskatchewan in April 2005. Investment Saskatchewan would purchase \$52M in guaranteed debt from a MLP debtholder, 101069101 Saskatchewan Inc. Established in April 2005 as a subsidiary of Investment Saskatchewan, 101069101 Saskatchewan Inc. holds senior secured debentures<sup>46</sup> acquired by way of a private sale.<sup>47</sup> Over the span of 12 years MLP only had a few years of profitability, most years MLP operated at a loss. Despite the lack of profits, CIC continued to purchasing debt and lend more money to MLP.

***"Meadow Lake's annual operating costs were approximately \$15M greater than their revenues and that with some cost savings taken during reorganization and employee concessions, approximately \$6M could be saved resulting in actual annual operating losses of approximately \$9M per year."***<sup>48</sup>

- Heather Forbes,  
VP and Director of CIC Pulp Ltd., 2005

Table 2

**Province of Saskatchewan's Equity Earnings (Losses) Meadow Lake Pulp (1993-2007)**

MLP (\$Millions)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Equity Investment	(9.8)																
Participating Debenture		(186.3)															
Infrastructure Contribution			(50.0)														
Equity Earnings (Millions)			(31.2)	(14.5)	29.6	(22.3)	(20.6)	(16.6)	10.6	17.7	(15.0)	(8.5)	(2.3)	0.8	0.0	2.0	13.4
Term Loan														(20.0)			
Contingency Loan														(10.9)			
Guaranteed Advance														(8.0)			
Purchase of MLP debt															(52.0)		
DIP Financing																(16.0)	
Sale of Assets from Bankruptcy																	42.9
Endnotes			[49]	[50]	[51]	[52]	[53]	[54]	[55]	[56]	[57]	[58]	[59]	[60]	[61]	[62]	[63]
Operational Losses		(57.4) M	Paid to Crown Investments Corporation (Investment Saskatchewan)														
Share of sale Proceeds		42.9 M	Recovered by Saskatchewan through the bankruptcy														
SK Initial Equity Investment		(9.8) M	Equity investment only, not including loans														
Participating Debenture		(186.3) M	Repayable debenture on MLP cash flow														
Additional lending		(15.9) M	Purchase of MLP debt, DIP Loan, other loans														
Actual Loss Money		(316.5) M	Estimated amount of actual lost money														
Less \$50M Infrastructure		(266.5) M	Estimated amount of net lost money														

Data Source: Annual Reports, Crown Investment Corporation, 1990-2007.

On January 2, 2006 MLP filed for creditor protection under the Companies' Creditor Arrangement Act. The mill remained open despite its inability to pay its enormous debt, its high energy costs, falling pulp prices, and an unfavourable exchange rate.<sup>64</sup> Investment Saskatchewan (formerly CIC) would provide more financing with an additional loan of \$15M on January 9, 2006, called Debtor-in-Possession ("DIP") financing loan.<sup>65</sup> The DIP financing was to be used to help MLP with operating costs while a buyer for the company was sought.

Table 3

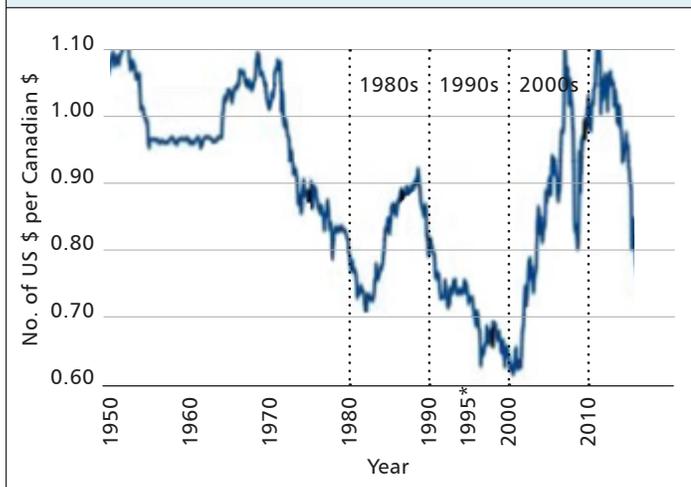
**Government of Saskatchewan Loan Terms & Conditions to MLP**

Participating Debenture	11.5% calculated on Oct 31 each year
Term Loan	Prime plus 2% any interest not paid each year is added to principal balance on Oct 31 each year. (6% - 2004)
Contingency Loan	Prime plus 1% any interest not paid each year is added to principal balance on Oct 31 each year. (5% - 2004)
Guaranteed Advance	Prime plus 1% any interest not paid each year is added to principal balance on Oct 31 each year. (5% - 2004)
Interest Loan	11.5% calculated on Oct 31 each year is added to principal balance.

Source: See <https://www.sec.gov/Archives/edgar/data/203098/000020309804000020/public-accounts.htm>.

Figure 18

## Historical CAD-US Exchange Rates (1950-2015)



\*1995: This is when the government converted CAD debt into US debt – see endnote 37.  
Source: Bank of Canada.

By December 31, 2006, CIC III was unable to determine whether it would have any involvement with the continued operations of MLP following the sale, so CIC III classified the entire MLP portfolio (all the outstanding loans and Saskatchewan's equity interest) as discontinued operations and would write-off all line items.

The sale of MLP's fixed assets and raw material to the Paper Excellence Group, a subsidiary of Asia Pulp and Paper (APP) for \$37.5M was approved by the Court on January 11, 2007. APP was MLP largest customer and the sixth largest paper and paperboard company in the world. Apart of the terms and conditions of the sale was APP had to operate the mill for at least five years from the date of purchase, in addition, CIC III would take up a 20 percent stake in the deal and once again MLP would return to Investment Saskatchewan's financial statement, but this time reclassified into a bulk account with other small investments.<sup>66</sup>

**"When you make a mistake, there are only three things you should ever do about it; admit it, learn from it, and don't repeat it!"**

- Paul Bear Bryant

The remaining assets of MLP, primarily the accounts receivable and pulp inventory, would be liquidated and the cash be used to pay Investment Saskatchewan the \$15M DIP and the rest towards the Participating Debenture owned to CIC III (now a subsidiary of Investment Saskatchewan Inc. In the end Investment Saskatchewan would recover approximately \$42.9M which only \$32.1M would be cash. The remainder would be \$5.0M equity stake in the newly acquired MLP, a \$2.7M *non-interest bearing* debenture owed by the newly acquired MLP, \$1.3M in equipment leases payable by the newly acquired MLP, and a \$1.8M *interest bearing* loan owed by the newly acquired MLP.<sup>67</sup>

As of December 27, 2005 MLP owed approximately \$894.1M to its creditors, according the insolvency firm, RSM Richter Inc., that handled the MLP's filing for creditor protection.<sup>68</sup> Two years later MLP would go into receivership on October 21, 2007,<sup>69</sup> MLP would owed \$50M more than it did in 2005. The overwhelming bulk of the \$944.6M debt was owed to the government of Saskatchewan, 97 percent (\$916.2M), and its various subsidiaries. Investment Saskatchewan claimed a debt of \$850M of which approximately \$649.7M (70 percent) was unpaid compound interest. It is important to note that according to the original arrangement both principal and interest was *only payable* and dependent on MLP's cash flow. 101069101 Saskatchewan Inc. claimed a debt of \$49.4M which was refinanced just eight months prior to the receivership by Investment Saskatchewan. The remaining assets of MLP were sold during 2007-08 and the government of Saskatchewan wound-down their interests in MLP by 2009.<sup>70</sup>

Table 4

**Meadow Lake Pulp Creditors**

	Ownership	Receivership Oct 1, 2007	CCA Protection Dec. 27, 2005
<b>Secured Creditors</b>			
Investment Saskatchewan Inc.	Gov. of Sask.	\$ 850,000,000	\$ 804,578,000
101069101 Saskatchewan Inc.	Gov. of Sask.	\$ 49,998,000	\$ 54,039,000
Investment Saskatchewan Inc. (DIP)	Gov. of Sask.	\$ 15,340,000	-
Millar Western Forest Product Ltd. (MWFP)	Family Owned	\$ 5,800,000	\$ 3,199,000
<b>Unsecured Creditors</b>			
CIC Pulp Inc.	Gov. of Sask.	\$ 5,493,000	-
Sask. Power	Gov. of Sask.	\$ 7,942,000	\$ 7,500,000
RM of Meadow Lake # 588	Municipal	\$ 1,229,000	-
Mistik Management Ltd.	*MLTC/MWFP	\$ 2,012,000	-
Canadian National Railway	Private	\$ 2,307,000	-
All Other Creditors	Private & Public	\$ 4,552,000	-
		<hr/>	<hr/>
*Meadow Lake Tribal Council		\$ 23,535,000	\$ 25,000,000

Source: See <http://www.prairiepolicycentre.com/site/pdf/2007/Saskatchewan's%20worst%20deal%20-II.pdf>.

***"Most of the other money [losses] that is referred to, I think, is opportunity costs as opposed to interest that's written off."***<sup>71</sup>

*- Eric Cline, Minister Industry and Resources,  
March 2007*

## CALCULATING SASKATCHEWAN'S RETURN (LOSS) ON INVESTMENT (ROI)

***"Philosophically, our Government believes that in certain defined circumstances Crown corporations are essential but we also believe that they must be effective and cost conscious. In this regard, we will carefully monitor all Crown corporations to ensure that the people are obtaining quality service for reasonable costs and that our Crown corporations, while meeting Saskatchewan economic objectives, continue to help fund our Treasury. In addition, we will manage our investments from the perspective of a prudent investor to ensure that CIC receives all capital and investment returns due to it."***<sup>72</sup>

*- Ned Shillington, Chairperson and Minister Responsible CIC, April 30, 1992*

Return on Investment (ROI) is the most common performance measure used to evaluate an investment, especially when comparing it to other investment options. ROI measures the amount of money earned, or return, on an investment relative to the cost of that investment. Calculating simple ROI is achieved by dividing the benefits received from the investment by the cost of the investment and expressing it as a percentage.

$$\text{Return on Investment} = \frac{\text{Gain from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

"Gains from Investment" are the proceeds obtained from the sale of the investment whereas the "Cost of Investment" is the *actual amount paid out* for the investment. The challenge in calculating an accurate ROI arises when in deciding on what were the actual gains received from the investment, that is, if the gains or costs of the investment occur over a time period this may complicate the simple calculation. It is very important to ensure that the gains and costs are properly accounted otherwise the measurement will be incorrect and interpretation of the return on investment will be flawed. Some common mistakes made when calculating ROI occur when dealing with stocks and leverage investments.

Investments involving stocks generally fail to account for transaction costs, that is, the actual cost of buying or selling the stock, failure to include transaction costs will inflate the ROI, likewise failure to include all dividends paid will deflate the ROI. Leverage Investments allow the initial investment to be multiplied many times over and can generate multiple returns. If the investment is over time then it is also advisable to discount or take into account the inflation rate allowing you to calculate the real ROI rather than a nominal ROI.

In order to calculate the ROI on Saskatchewan's joint venture two views need to be taken. The first view is what was the ROI on the Equity portion only and secondly what was the ROI on the Loan portion.

Therefore a very simplified calculation of the ROI on the Saskatchewan joint venture based on the original equity investment of \$9.8M equity investment plus \$50M infrastructure contribution made by Saskatchewan and having suffered a total loss of \$57.4M in negative returns over 14 years and not receiving any of the proceeds from the sale of MLP assets the simple nominal equity ROI for this investment would be -196 percent.

$$14 \text{ Yr Return on (equity) Investment} = \frac{(-\$57.4M) - \$59.8M}{\$59.8M} = -196\%$$

However, recall that the simplified ROI may be inflated or deflated based on ensuring that all gains and costs are properly accounted, in addition, by dividing the total gains by 14 years we can see that the average annual ROI (loss) on the investment would be approximately -14 percent per year.

$$\text{(Average Annual) Return on Investment} = \frac{(-\$57.4M) - \$59.8M}{\$59.8M} \times 14 \text{ Years} = -14\%$$

Comparing this ROI to other investment types we can compare how well this investment performed. Using the dividend scale interest rates and the participating account return for London Life, S&P/TSX composite total return index, five-year GICs,

Government of Canada 5-10 year bonds, and the consumer price index, it appears that the annual return, in this case annual loss, -14 percent is not acceptable for any investment. To put this annual loss into perspective one may consider the severe economic turmoil of 1980's and the early 1990's along with the S&P TSX Composite Return Index over the same period. The Province of Saskatchewan's investment in MLP from 1990-2007 is far less than the compared to the annual average return for investors in the S&P TSX Composite Return Index (+10.6 percent) while investors in Government of Canada 5-10 year bonds averaged an average annual return of 6.3 percent.

Table 5

**Historical dividend scale interest rates, account return rates, CPI index (1985-2014)**

Year	London Life Dividend Scale Interest Rate (%)	London Life Participating Account Return (%)	S&P/TSX Composite Total Return Index (%)	Five-year GICs (%)	Government Canada 5-to 10-year Bonds (%)	Consumer Price Index (%)
1985	11.1	10.5	25.1	10.5	10.8	4.4
1986	11.1	10.6	9.0	9.6	9.4	4.2
1987	11.1	10.3	5.9	9.4	9.6	4.2
1988	11.1	10.3	11.1	10.0	9.8	3.9
1989	10.8	10.4	21.4	10.2	9.8	5.3
1990	10.8	10.1	-14.8	11.0	10.8	5.0
1991	10.8	9.9	12.0	8.9	9.4	3.8
1992	10.7	8.7	-1.4	7.3	8.2	2.2
1993	9.7	8.5	32.6	6.2	7.2	1.7
1994	8.9	7.9	-0.2	7.3	8.3	0.2
1995	8.9	8.0	14.5	7.1	7.9	1.7
1996	8.9	7.9	28.4	5.6	6.9	2.2
1997	8.9	7.9	15.0	4.7	5.9	0.8
1998	8.9	7.9	-1.6	4.4	5.3	1.0
1999	8.9	7.6	31.7	4.8	5.6	2.6
2000	8.4	7.3	7.4	5.3	6.0	3.2
2001	8.4	7.0	-12.6	4.1	5.3	0.7
2002	8.4	6.7	-12.4	3.9	5.1	3.8
2003	8.4	7.5	26.7	3.1	4.5	2.1
2004	7.7	6.7	14.5	2.9	4.3	2.1
2005	7.2	6.7	24.1	2.7	3.9	2.1
2006	7.2	6.5	17.3	3.2	4.2	1.7
2007	7.2	6.2	9.8	3.3	4.3	2.4
2008	7.3	-0.3	-33.0	3.0	3.4	1.2
2009	7.3	8.7	35.1	1.9	2.8	1.3
2010	6.9	7.1	17.6	2.0	2.9	2.4
2011	6.9	3.7	-8.7	1.9	2.5	2.3
2012	6.4	5.9	7.2	1.6	1.6	0.8
2013	5.9	7.0	13.0	1.6	2.0	1.2
2014	5.9	5.5	10.6	1.9	1.9	1.5

Source: London Life, see <http://www.mwfg.ca/resources/content/d129.pdf>.

Looking back retrospectively and purely from an investment point of view the Province would have been better off if it would have invested its money into Government of Canada Bonds, assuming – *the goal* – of the Province of Saskatchewan is only to make a return on investment.

The more significant and disturbing component of the MLP story was the terms and conditions of financing and the lending practices of the province of Saskatchewan’s subsidiaries. While lending money at high rates of interest is generally a desired strategic investment, it is only reasonable if there is a reasonable expectation that the borrower will repay the loan. If there is no way the borrower is to repay the loan and if the outcome is default and seizure of the borrower’s assets, then it is usually called predatory lending. It is also true that if a higher rate of interest is sought usually it corresponds with the extra risk that the lender is taking by lending to the borrower. In the MLP case it appears that the original intentions of the loan was more of a *passive repayable grant* than a true loan. The \$186.3M Participating Debenture was to bear interest and that interest was captured into another loan, called the Interest Loan which also was bearing interest. While on the face of it may appear normal, however, the terms of repayment were based on MLP’s cash flow. In other words, if the company did not have excess cash flow the lender would simply capture the interest and compound it onto the outstanding debt, this is called *negative amortization*.

CIC III would make several different loans of approximately \$256.7M over the years to MLP over 14 years, but only \$186.3M was used for the actual original building of MLP. After 14 years the Province would claim \$850M+ debt outstanding of which \$649.7M was unpaid interest (nearly three times the amount originally borrowed). Without including the \$649.7M of unpaid interest, the actual amount that the Province of Saskatchewan loss would have only been around \$266.5M (\$316.5M principal loans losses, operating losses, equity loss less \$42.9M in sale proceeds). While a more comprehensive calculation of the overall financial loss could slightly raise or lower this number if based on audited financial statements of MLP, the fact is that a majority of the loss was compounded interest charges.

## ADDITIONAL ISSUES TO CONSIDER

The scope of provincial powers are broadly set out in the constitution. "...*generally all matters of a merely local or private Nature in the Province.*" Provinces are responsible for public schooling, health and social services, highways, the administration of justice and for local government. Provincial governments also play a role in regional economic development with public investment in transportation. During the 1960's and 1970's provincial activities expanded into providing social assistance and health programs. Provincial power expand to include property rights, the management and sale of provincially owned public lands, hospitals, municipal institutions, local works, and incorporation of companies with provincial objectives.<sup>73</sup>

Back in the early 1990's, through crown corporation subsidiaries, the Saskatchewan provincial government provided two-thirds of the financing for the construction of the pulp mill based on a repayment scheme of MLP's available cash flow. It could be argued that such favourable terms were meant to aid MLP on a path to become a major pulp producer in the world, but would hold true if the actual accrual of interest would have been forgone or never charged. However, by continuing to lend money in a variety of different loans without having a fixed repayment plan, the practices of the government throughout the 1990's were more akin to the "predatory" lending practice of negative amortization.

Predatory lending practices occur when the borrower is led into a transaction that is not what they expected. While the lending instruments (loans) themselves are not predatory, it is the practice by the lending institutions and their agents. Some common predatory lending practices include: equity stripping, loan flipping, mandatory arbitration, and negative amortization.

Equity Stripping is the process where a lender makes a loan based on the equity in a home or business, whether or not you can make the payments. If the company or borrower cannot make the payments they are foreclosed on or forced into receivership. Loan Flipping is a process where the lender refinances an existing loan with a new longer term and more high cost loan. Each time the lender "flips" the existing loan the borrower must pay additional assorted fees. Mandatory Arbitration occurs when the lender adds language to a loan contract making it illegal for a borrower to take future legal action for fraud or misrepresentation. Negative Amortization occurs when a monthly loan payment is too small to cover even the interest, which gets added to the unpaid balance. It can result in a borrower owing substantially more than the amount borrowed.

## CONCLUSION

***"Firstly let me say that yes, of course there was alternatives to operating the Meadow Lake pulp mill. The government could have shut the pulp mill down and put people out of work in Meadow Lake and put all the contractors that were delivering to the Meadow Lake Pulp mill out of work as well. That could have been an option. It's not one we pursued ... we inherited a deal that we were not the authors of ... about 15 years – the government didn't make interest on that money, so there's an opportunity cost."***<sup>74</sup>

*- Hon. Eric H. Cline,  
Minister of Investment Saskatchewan, 2007*

The government of the 1970's set Saskatchewan on a path of economic diversification, Diversifying the agricultural-based economy into other natural resource sectors, such as, oil, potash, and uranium, through socialization. In 1981 Grant Devine along with the Progressive Conservatives swept to power on a platform of continued diversification through privatization. As the Devine government's plan was being carried out, the economic realities of the 1980's: recession, drought, infestation, commodity price collapse, and technological change would stall many planned initiatives. One of the last major projects initiated by the Devine government before their defeat in 1991 by Roy Romanow and the NDP was the approval of the long awaited Meadow Lake Pulp mill.

Looking back at 1989-90 decision, it is clear to see that at that time GDP growth was returning to Saskatchewan; the Canadian dollar had just passed through a historical low; new environmentally friendly technology (BCTMP) was recently developed; and pulp market prices were at record highs; and all major and minor producers of wood pulp and paper were increasing their production capacities. The Canadian consumer price index was at 5.8 percent

and Government of Canada 5-10 year bonds were paying 9.8-10.8 percent per year and world trade in volume of goods and services had doubled between 1980-1989. Based on this information, the decision to invest in MLP was a sound investment.

Unfortunately, shortly after the decision was made and just as MLP operations were beginning in 1991, world pulp prices plummet to half of what they were at the end of the 1980's, and would remain there until 2000's. Interest rates would start a downward trend towards zero as the world economy tried to recover from the aftershocks of the market crash of 1988. All major producers of pulp production levels fell after 1991 with the exception of China and Indonesia, whose production rates soar. Trade liberalization allowed places like China and Indonesia to capitalize on their lack environmental standards and cheap labour especially in manufacturing and primary resource production. The collapse of the Soviet Union and the push in the United States and United Kingdom away from public ownership towards privatization. Along with the birth of the high-speed internet causing a major disruption in a paper-based society transforming it into a digital world.

With all these changes playing out shortly after MLP began operations, what was once a good investment soon became clear that in the changing world of 1990's, industries such as pulp and paper would need to be much more competitive to survive. In fact, the Financial Management Review Commission recommended in their report that investments like MLP and others be carefully monitored and should be viewed as long-term investments rather than short-term commodity fluctuations. The Romanow government failed to monitor the commodity fluctuations and instead focused on protecting 130+ jobs created by the MLP. While this decision was admirable it was extremely costly since the government became obsessed by escalating compounding interest being "earned" on a debt that had no repayment mechanism.

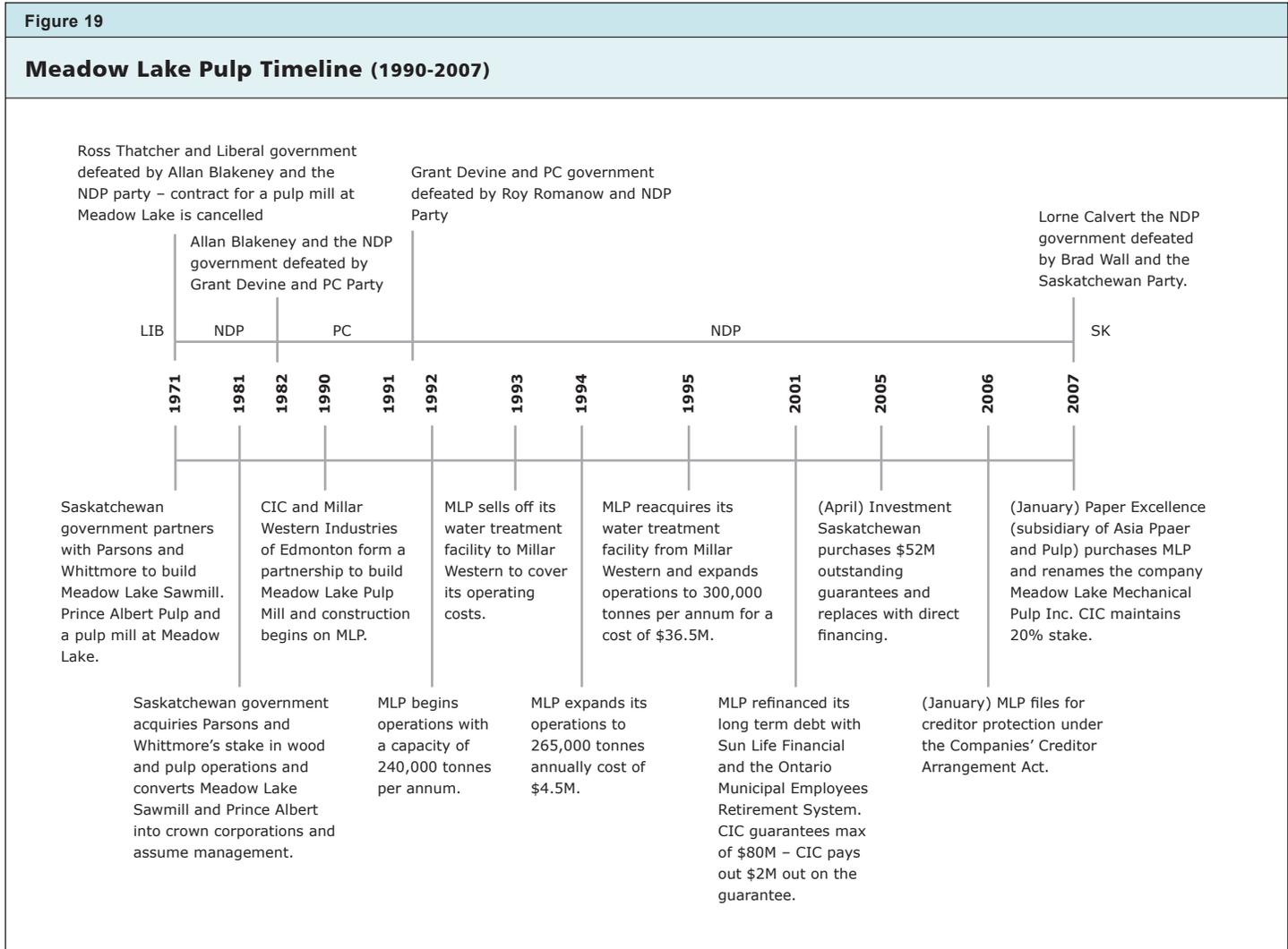
Finally Saskatchewan's investment in MLP ended 2007. The MLP investment story ended as a travesty, but the travesty was – not – the building of Meadow Lake Pulp mill, the travesty was the government's failure to monitor the change in

market conditions and allow their subsidiaries to engage the “predatory lending” practice of negative amortization. Unfortunately, the recording of history by mainstream media, political lobbying groups, and politicians, all glazed over the facts and hyper-focused on how much “unearned” interest was written off rather than the more relevant facts of the changing market and predatory lending practices of the province. The mistake was not the decision to build MLP, the mistake was the government’s hyper-focus on how much money it was “earning” on its questionable lending practices.

As far as pulp production in Meadow Lake, it is alive and well, operating as Meadow Lake Mechanical Pulp Inc. (MLMP) a part of the Paper Excellence Company since 2006. MLMP currently has the

capacity to produce 360,000 tonnes of BCTMP annually and *effluent-free*. The company ships BCTMP by rail and truck to Vancouver and exports around the world. MLMP maintains the business philosophy that good governance is required to build a sustainable business.<sup>75</sup> Perhaps if the CIC III and the NDP government of the 1990’s adopted the same principal with regard to their financing practices, the MLP story may have been recorded differently.

***“One of the great mistakes is to judge policies and programs by their intentions rather than their results.”***  
 - Milton Friedman



## ENDNOTES

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