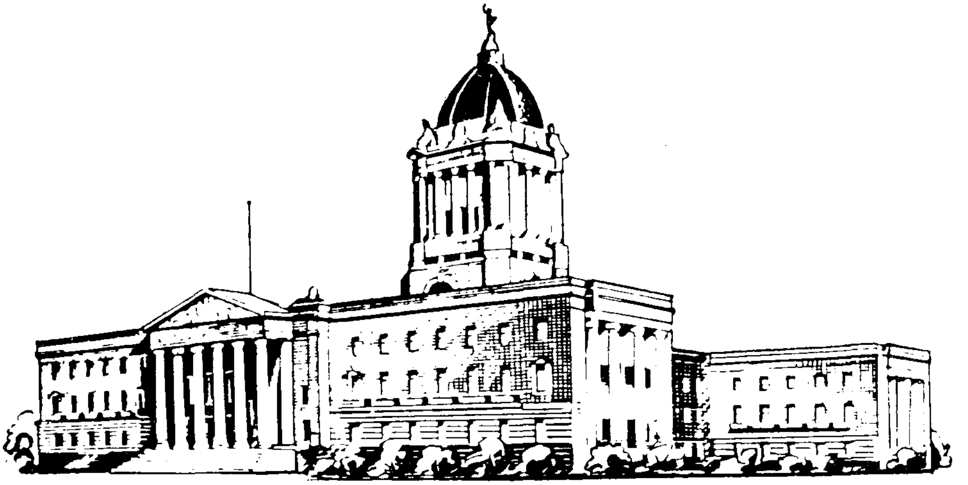
Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

Chairman
Harry Shafransky, M.L.A.
Constituency of Radisson



10:00 a.m., Thursday, May 20, 1976

Printed by R. S. Evans — Queen's Printer for Province of Manitoba

THE LEGISLATIVE ASSEMBLY OF MANITOBA
STANDING COMMITTEE ON ECONOMIC DEVELOPMENT
10 a.m., Thursday, May 20, 1976

Chairman: Mr. Harry Shafransky

MR. CHAIRMAN: Good morning. We shall proceed with the Economic Development Committee and this morning we have the Chairman of Manitoba Forestry Resources Limited. I'll call upon the Minister, Mr. Green, to introduce the Chairman. Mr. Green.

MR. SIDNEY GREEN: Mr. Chairman, Mr. Hallgrimson is known to the Committee, I think he's appeared before them on at least four occasions. On his first occasion he appeared as the receiver indicating the situation and then he was subsequently made the Chairman of the Manitoba Forestry Resources Limited and has been showing leadership in its operations for the last several years. I think that Mr. Hallgrimson acquitted himself last year in a manner very satisfactory to all members of the committee and I'm sure we're happy to see him here again.

MR. CHAIRMAN: Mr. Hallgrimson.

MR. LEIFUR J. HALLGRIMSON: Thank you, Mr. Minister. You gentlemen have before you what is called the Annual Report of our company, in main it's composed of the Financial Statements as prepared by the Provincial Auditor. You will note there is a letter from Mr. Ziprick, the Auditor, which is dated February 20, 1976 with the usual auditor's statement, that it has been prepared in accordance with accepted accounting principles.

Our year end is for the year ending September 30, 1975 - our fiscal year, September 30, 1975. At the front of the booklet there is a short report written by me as chairman of the company. If you want I can go through that or if you want to go directly into questions, it's entirely up to you, gentlemen. Maybe some of you haven't read it so maybe I could go through some of the highlights.

MR. CHAIRMAN: Yes, if you will, Mr. Hallgrimson.

MR. HALLGRIMSON: Yes. I'm pleased to report that for the year under review the company generated $339,000 of operating profits after meeting both operating costs and $3,150,000 of interest payable to the Province of Manitoba. This despite the fact that we have come through one of the most depressed market periods in the last 40 years, and here I'm referring to the pulp and paper industry in particular. After deducting depreciation of $4,753,000, a non-cash item, the final figure for the year is a loss of $4,414,000. I will now report on each of our operating divisions in some detail giving '74 results in brackets where applicable.

Pulp and Paper Division: Gross sales in this division declined to 33 million - 33,113,000 from 35,754,000, and production declined to 112,000 tons from 128,000 tons. This was the result of a recovery boiler explosion which cost 27 1/2 days of down time and lost production of 9,900 tons, and also due to weak markets which forced us to take a shutdown of 16 2/3 days and lost production of 6,000 tons, making a total of 15,900 tons. The down time taken by our paper mill during the year due to lack of orders was less than that of any comparable competitor in Canada. The major change in this division during the year was that we set up our own marketing branch to handle Canadian sales, thereby reducing our selling cost by $450,000.

The Lumber Division: Gross sales dropped to 5,218,000 from 10,161,000, and production dropped to 40 million board feet from 75 million board feet the year before. This drop in production was entirely the result of weak markets which saw selling prices fall below the cost of production.

The Machine Shop: Limited use has been made of the machine shop with an average of 30 employees on staff. Although the financial statements show an operating loss of $312,000 as most of the work was in-house, by that I mean done for the pulp and paper mill and the saw mill, it is difficult to reduce to dollars and cents the true value of having these facilities on-site. Evaluation of this division continues to be made.

Fence Post Project: The physical facilities of this operation are now capable of full production as mentioned in last year's report, however production has been kept to a very low level due to the fact that the demand for fence posts has decreased dramatically in the last year. The decrease in demand was largely attributable to low

(MR. HALLGRIMSON cont'd) . . . . . beef prices in Canada and the U.S. which resulted in ranchers purchasing less fence posts. The end result was the loss of $32,000 compared to a profit of $12,000 the year before.

Rental Housing; In order to ensure that adequate housing accomodation is available for our employees in The Pas we operate a rental housing division. This division has five 24-suite apartment blocks, 16 duplex units and nine single family units. Although the objective of operating this division is not profit motivated we do not intend to subsidize housing. Despite our intentions, sharply higher insurance, property taxes and maintenance costs have left this division with a cash operating loss of $63,000, compared to $17,000 the year before. After gains of $22,000 compared to $7,000 the year before on rental units sold during the year the net cash loss was $41,000 compared to $10,000 the year before.

Average employment during 1975 showed a slight increase over 1974 because of the activity of the machinery plant and of other minor changes such as the setting up of our own Canadian paper sales staff. Thus 1975 employment averaged 1,100 compared to 1,084 with gross payable costs of $17 1/2 million compared to 14.8 million the year before.

A total of 363,000 cords compared to 296,000 cords the year before were harvested and delivered to the plant site. The wood harvested exceeded that of the preceding year even though end product figures were down because the millsite wood inventory was abnormally low at the preceding year-end. The excess wood harvested replenished the millsite wood inventory to normal operating levels.

Capital Expenditures during the 1975 fiscal year were approximately $8 million. The major items were the power boiler 2.9 million; a pulp washer $470,000; increasing the evaporator capacity $380,000; a Beloit couch roll $150,000; logging roads $330,000; mobile equipment for wood harvesting $980,000; the relocation of a Woodlands camp $120,000; upgrading the millsite wood storage area $100,000; a reject log chipping system in conjunction with the sawmill $570,000; a chip relay system $240,000, and the fence post plant $110,000.

Although there is an agreement with the Town of The Pas which if effective would sharply reduce our tax liabilities, we have followed the policy of making a grant in lieu of taxes to the full extent of what our tax liability would be if there were no agreement. Accordingly, for the year 1975, we paid property and business taxes to the Town of The Pas in the amount of $841,550 compared to $579,000 the year before.

Worthy of note is the degree of success met with our ongoing safety program. During each year of the company's history there has been a decrease in the accident frequency rate. Currently the Pulp and Paper Division has the second-best safety record of a plant of its size in Canada and the accident frequency rate in the Lumber Division runs about one-quarter of that experienced at comparable West Coast Mills.

Maintaining the quality of our natural environment continues to be of major concern. In the wood harvesting area we follow the practice of harvesting all mature trees of the species we can use rather than high-grading. After an area is harvested it is cleaned up and in order to promote natural growth the area is scarified. This program of assisting natural growth has met with good success. The wood harvested is fully utilized with larger wood being cut into lumber, wood waste from the lumber mill and small logs being used in the production of paper and waste such as bark, sawdust, etc., burned in the power boiler to reduce our consumption of oil.

Finally in our production process we have spent and will continue to do so the moneys required to ensure that we meet the governmental pollution standards.

As we are not utilizing the full wood resources available to us and as our production capacity leaves us in a marginally viable state, we are continuing an active investigation of various alternative expansion possibilities. The main problems are that increasing our annual harvest of wood means going into more inaccessible areas with the attendant increase in the cost of the wood harvested, the capital cost of any expansion program has more than doubled in the last six years, high interest rates, and foremost, we must market our product in competition with foreign suppliers whose operating costs are not as high as our's because either their wood costs are lower, their labour costs are lower, or both. When we have determined that an expansion program would be economically

(MR. HALLGRIMSON cont'd) . . . . . feasible the details will be forwarded to the Government of Manitoba and authority requested to proceed.

We expect that results for the current year, which ends September 30, 1976, will be similar to the period under review. Although demand for our products has stabilized and is strengthening price increases over the last two years have not kept pace with increased costs, hence our profit margins have not returned to 1974 levels. As our products are marketed on a world-wide basis we face severe competition and must maintain prices at levels which are competitive.

The long-term outlook for our company is reasonably favourable. The two factors of projected world-wide shortages of wood fibre and high capital costs of constructing new mills should both work in our favour to enable the company to provide a modest return on equity.

That completes the written report gentlemen.

MR. CHAIRMAN: Thank you, Mr. Hallgrimson. Are there any questions? Mr. Craik.

MR. DONALD CRAIK: Mr. Chairman, to Mr. Hallgrimson. I wonder if he could indicate here what the present market situation is - this report is eight months old - indicate what is the market at this time in terms of the outlook for this year's operations?

MR. HALLGRIMSON: I made reference to that. The market appears to be strengthening, as you probably know, if we are talking about paper; first, the demand for paper is pretty well dependent on the state of the economy and last year of course in '75 the world economies were depressed and this certainly reflected itself in the paper markets and we faced in the pulp and paper industry one of the severest drops in demand since the depression in the thirties, I'm told. The economies appear to be strengthening, especially in the United States, it seems to always lead the way in this respect. There is indicated recoveries in Germany and in France at the present time; the United Kingdom of course has certain financial difficulties; Italy is likewise; our own economy seems to be picking up in areas, in construction, etc., which is reflected in demand for paper which we produce and is used in making cement bags, for instance. So I would say that our outlook is more favourable today, but as I indicated in my report we are faced with a cost price squeeze, we are experiencing of course increased costs and we haven't as yet been able to increase the price of our paper despite the fact that the demand has increased.

Now as far as lumber is concerned, the lumber situation is certainly a lot better than 1975 and in that division the price of the product has increased considerable although it's at a bit of a hiatus at the present time, I'm not quite sure, but the prospects over the next few months I think are pretty good.

MR. CRAIK: You are now eight months into your next year?

MR. HALLGRIMSON: Yes.

MR. CRAIK: You would have some pretty accurate reading as to whether your volume is up and what's happening on your cost. Your remarks appear to be geared to what you thought the economy would do but since we've already gone eight months into your next fiscal year after this report you must have some idea . . .

MR. HALLGRIMSON: The overall situation is pretty well the same as last year, the end result I would say. I wouldn't expect, if you're wanting a prediction, for the final outcome this year I would expect that our financial results will be very similar to last year.

MR. CRAIK: Is that because of volume or costs?

MR. HALLGRIMSON: I would say it would be because of cost because if the costs hadn't risen we would be in a better position.

MR. CRAIK: You made reference to the machine shop here, you have 30 employees working in the machine shop.

MR. HALLGRIMSON: Right.

MR. CRAIK: This is the machine shop, the Bertram Machine Shop, what was the Bertram Machine Shop?

MR. HALLGRIMSON: That's correct.

MR. CRAIK: What do you use the machine shop for?

MR. HALLGRIMSON: Well as I stated in my report most of the work is in-house. A complex of this nature of course generates quite a bit of work which would be done in a

(MR. HALLGRIMSON cont'd) . . . . . plant of this nature. The rolls have to be reworked or machined, there's other machinery which requires updating or some work done on it, so there is work from the complex itself. As you know, the original concept of course envisaged that this would be a paper machine making plant, we've never attempted to achieve or implement that intention, there are too many difficulties I think in that respect. But we have looked for and we have tried to do, I guess generally what you would call machine work, we've done work for the mines in the north, Hudson Bay Mining and Smelting and INCO and we've also done some work for people in Winnipeg, but it hasn't been, as you can see, any great howling success and we continue to look at it to try and determine whether or not it should be continued or not.

MR. CRAIK: You operated for several years without the use of the machine shop, did you not?

MR. HALLGRIMSON: Yes, it was moth balled pretty well for about two or three years.

MR. CRAIK: And it has just been used in the last year?

MR. HALLGRIMSON: Yes, it started up last year.

MR. CRAIK: This is a pretty significant factor, $312,000 is a pretty significant factor in terms of your total operating statement. Part of that would have been cost at any rate would it not had you not had it open?

MR. HALLGRIMSON: That's right. If the place was closed, we would incur costs of probably $100,000 or so, just maintaining the building.

MR. CRAIK: So it's perhaps $200,000 cost, actual cost in your initial year of operation of that part of the total complex.

MR. HALLGRIMSON: Yes. There is a value to the complex itself in having such a facility next to it, of course, which is hard to put a dollar value on but undoubtedly does exist.

MR. CRAIK: Mr. Chairman, Mr. Hallgrimson made reference to expansion plans at the site. Is the market situation such that there is significant expansion going on in the industry generally at this time?

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: I would say no, Mr. Craik, there isn't that much new construction being planned in the industry. I think there are two factors. One are the exorbitant costs of any such facility. A new facility has recently been announced in Quebec at St. Felicien. It's an 800 ton per day unbleached craft pulp mill and the costs are projected at $300 million which would be 2½ times or triple what they would have been maybe six or seven years ago. So there's that factor. There is of course the high interest rates. Even for the larger companies, I recall the ex-president of MacMillan Bloedel, Mr. Timmis, stating even for a company the size of MacMillan Bloedel, he didn't foresee them building new pulp mills or new mills, because of the magnitude of the investment. This particular one that I refer to in the Province of Quebec, it's a consortium of two companies, one of which I understand the Quebec government has some share holdings in, Donahue Company, there's also extensive government involvement, outright grants which undoubtedly I guess help reduce the cost to a point that it makes it economically feasible. So that's the problem with new facilities.

MR. CRAIK: Have you done any estimates of the current cost of doubling the size of the facility at The Pas.

MR. HALLGRIMSON: Yes, we have.

MR. CRAIK: Can you give us some indication of what . . .

MR. HALLGRIMSON: I believe, $130 million.

MR. CRAIK: $130.

MR. HALLGRIMSON: Yes.

MR. CRAIK: Do you have to duplicate everything that's there or do you use some of the common facilities that are already there, for instance . . .

MR. HALLGRIMSON: We would use some, we wouldn't have to duplicate it completely. That's correct. So if you were building a new structure or a new plant, it would cost a bit more.

MR. CRAIK: When the power plant was rebuilt, was it rebuilt as initially had been built as to capacity, or did you increase the size at that time?

MR. HALLGRIMSON: The power boiler you mean?

MR. CRAIK: Yes.

MR. HALLGRIMSON: I don't get your . . .

MR. CRAIK: Well if you were to build a new plant, would you be building a complete new power boiler?

MR. HALLGRIMSON: No. It would be sufficient to look after an expansion . . .

MR. CRAIK: Which would be a fairly major part of the whole complex then, would it not?

MR. HALLGRIMSON: The power boiler?

MR. CRAIK: Yes.

MR. HALLGRIMSON: Yes it costs about $5 million, $4 to $5 million.

MR. CRAIK: Was the boiler changed at the time of the explosion or was it just repaired in the last year?

MR. HALLGRIMSON: The power boiler has nothing to do with the explosion. The explosion was in the recovery boiler.

MR. CRAIK: So there were no changes made then in that part of it at the time of the explosion, there was no changes in the capacity of the system made at the time that it was repaired?

MR. HALLGRIMSON: Oh no. We have a recovery boiler and then we have what we call a power boiler. The recovery boiler burns up the chemicals, you know, and the power boiler of course has to be fed either by the hog fuel or by actual Bunker C. but that has nothing to do with the capacity of the mill except in the sense that the fact that we now have two power boilers. The reason we got into a new power boiler was that we were experiencing difficulties with the existing power boiler, there were tube failures in it, and it was resulting in quite a bit of down time. But it would certainly, if the mill was ever expanded there's sufficient power capacity to look after that.

MR. CRAIK: What's the maximum capacity now that you can achieve from your present set up?

MR. HALLGRIMSON: Well this varies. Of course when you talk about capacity, this doesn't mean that because you can produce 450 tons per day that this is the rated capacity, it's an average over a period of time. In 1974, which was of course a very good year, I believe that we averaged 380 tons per day.

MR. CRAIK: Averaged 380 tons per day?

MR. HALLGRIMSON: 380 tons per day, that's right.

MR. CRAIK: And your maximum production in the order of 450?

MR. HALLGRIMSON: Oh yes. Depending upon the weight of the paper, for instance, the heaviest paper we make is 70-pound paper and if you have a good run there it might even run up as high as 500, but then when you get down to lighter weights there are more difficulties and you'll get maybe only 350, 320 or so.

MR. CRAIK: This is quite a bit higher than the earlier speculation when the government took over this that you would expect not higher than about 300 tons per day, the rated capacity was around 350 was it not?

MR. HALLGRIMSON: Well yes. Whatever arguments there were it was over the rated capacity as I recall it and it was stated that the rated capacity was 350 tons per day. I don't think what I have said changes that in any way. You probably as an engineer know that the fact that something might have a rated capacity doesn't mean that once the thing becomes operating efficiently it will not at times operate at a higher capacity. And then improvements have been made of course in the time since then, in many ways.

MR. CRAIK: Mr. Chairman, Mr. Hallgrimson has one statement in his report that is reminiscent of the representations we heard before the Law Amendments Committee on the Rent Control Bill that you didn't intend to subsidize housing but because of higher insurance, property taxes and maintenance, you're left with an operating loss of $63,000. As a matter of interest, do you come under the new Rent Stabilization Act?

MR. HALLGRIMSON: Well I'm a lawyer, I hadn't thought of it from the legal standpoint. I assumed that we would. We, as a matter of fact --(Interjection)-- Yes, we did, we increased them by an amount in excess of ten percent. So that we'll either have to roll it back as I understand the legislation, I haven't seen the regulations or make

(MR. HALLGRIMSON cont'd) . . . . . an appeal for permission to continue the higher rental rates than is allowed by the statute, but we certainly have experienced increased municipal taxation in the Town of The Pas in the last few years.

MR. CRAIK: Well I just want to point out that your rationalization in here is very similar to what we heard at Law Amendments Committee and to point out also that you've probably only got about 45 days left before you get thrown into jail if you don't start adhering to the Bill 19.

MR. HALLGRIMSON: Thank you very much for bringing it to my attention.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, Mr. Hallgrimson was mentioning the increasing difficulty he had competing in the world markets because of his rising costs of production. Mr. Hallgrimson, which countries are your major competitors in respect to Canadian production in the world markets?

MR. HALLGRIMSON: Well I think I would have to say the United States, I think this is what I was referring to. I have some figures here which I think might be of some interest. Our average pulp and paper wage rates; tradesmen $8.51 per hour; production workers $6.11 per hour; the average hourly rate is $7.16. In the USA, the average pulp and paper, grant you this is an average of 60 mills in the southern states, the rate if $5.53 per hour. It's a known fact in this industry that costs, both labour and other costs are higher than our competitors in the U.S.

MR. McGILL: So what's happening is that because of the rate of inflation under which we operate, we're pricing ourselves out of the market and eventually it's going to mean that you're going to be in real trouble competing, if you're not already so, in terms of selling your production. I notice that your labour costs have increased about 20 percent between 1974 and 1975, that's just one of the costs of course involved. What kind of an increase in percentage terms do you anticipate for this current year?

MR. HALLGRIMSON: I could give that to you, sir. We have two unions in the pulp and paper division, our contract expired in November of last year. Our office employees in the pulp and paper division, there was a two-year contract that was negotiated and by the way, it had to be submitted to the AIB Board. There was a 12 percent increase for the office employees in the first year, and eight percent in the second year; there was no change in that, that was approved.

The production employees, the amount approved by the Board was 14.5, our agreement had called for 15.8. In the second year the increase approved was 11 percent compared to 11.1 in the agreement, so there was a rollback there in the first year of about 1.3 percent and .1 percent in the second year, and a similar situation in the engineering division.

In the saw mill, the agreement was negotiated before the advent of wage and price controls, the union is the IWA, International Woodworker's Union. The first year, 15.2 - no, this is on the fence post project - 15.2 percent the first year, and 9.9 percent in the second; and in the saw mill it's 16.8 percent in the first year and 12.4 percent in the second. This pretty well conforms with, as you probably are aware from newspaper accounts, the whole pulp and paper industry. Most of the agreements came up this year, in fact there were prolonged strikes in eastern Canada, and these rates pretty well conform to the standards in the industry.

MR. McGILL: Are you optimistic then about your ability to compete in markets where the rate of inflation is somewhat less as we know it to be in the United States?

MR. HALLGRIMSON: Well I don't think that I can be optimistic. I think this is a problem that we face and I think the statements you made, from the figures I quoted, it appears that we are pricing ourselves out of the market. There are other factors, of course, involved. It happens in the particular product that we, if we are to export it to the United States, they're pretty well self-sufficient in this product in unbleached kraft paper and a lot of it is produced in southern mills where the costs are low. They appear to be, the unions down there, accepting and have accepted lower wage increases of around ten percent. The wood costs are lower too, there's a faster growth so that in that particular market, it certainly appears that this could happen.

MR. McGILL: Are other operating expenses other than labour costs, are they increasing at roughly the same rate?

MR. HALLGRIMSON: Well they're certainly increasing, I can discuss other major items, for instance the cost of Bunker C. When we started up, I think the first year it was about ten to eleven cents a gallon delivered at The Pas, and now it's about 35 cents a gallon and we use about 12 million gallons of Bunker C. a year so that means that our cost of oil has gone from about 1.2 million to probably close to $4 million a year. Now that's not all because of the cost of oil, it's cost of transportation. The railways have increased the cost of their rail rates, in fact the cost of railing that Bunker C. has doubled in the last year, so I don't know what rules they're subject to. I did read one statement by the Minister of Transport, I guess, Mr. Lang, who stated they they were expected to follow the guidelines but that they would be allowed to maintain their profit levels. I don't know what that means with respect to the CNR because I don't know whether it's ever made a profit.

MR. McGILL: Well being faced with this kind of percentage increase in costs annually you're, I imagine, not very seriously contemplating doubling your plant capacity and probably will not be seriously considering it until our rate of increase in costs is somewhat more in line with the annual rate of increase being experienced for your . . .

MR. HALLGRIMSON: Yes, I would say that that would be true certainly in this particular product. There are other products that might be feasible.

MR. McGILL: Mr. Chairman, there's just one other area. You mention the machine shop and the use to which it's now being put. How much of the machine shop is being used? I know that there were quite an array of expensive and sophisticated machine tools, are many of them still mothballed or have any of them been disposed of from that plant?

MR. HALLGRIMSON: We haven't disposed of any. I would say that most of them are being utilized from time to time, but naturally from our income from that source you can see that we're not utilizing it fully, it's a rather modest attempt to utilize the equipment rather than leave it mothballed.

MR. McGILL: Has that equipment got a pretty good market value at the moment?

MR. HALLGRIMSON: Well it's like anything else I would think, I can't really answer your question. We have had from time to time inquiries about particular pieces of equipment but the break-up value, of course, is always somewhat less than the original cost. Of course, inflation I guess has increased the value, at least the current value of some of the equipment. But the fact that it's there and installed we felt that if we could start it up on a modest basis and if things went well, increase it as the demand or the work orders materialized, would be better than to break it up and dispose of the equipment. And as I stated to Mr. Craik, there is value to the complex as a whole to have this capability there which is difficult to put a dollar value on. But it's certainly not being utilized. Of course, when you consider the original cost of the whole venture in no way is it . . .

MR. McGILL: If in the future at some time it became feasible to double your plant capacity could this machine shop be put to its original use and actually manufacture papermaking machinery?

MR. HALLGRIMSON: We could certainly manufacture a lot of it, I would hesitate to say everything. There are a couple of pieces of equipment that we don't have, some large lathes that are in Europe and have never been delivered which might have some bearing on that. I couldn't really answer your question.

MR. McGILL: They've been paid for but not delivered?

MR. HALLGRIMSON: That's right, yes.

MR. McGILL: Is any effort being made, I presume there is . . .?

MR. HALLGRIMSON: Oh yes, we have legal counsel over there considering the . . . --(Interjection)-- We have lawsuits.

MR. GREEN: But there are no losses in the lawyer's balance sheets.

MR. McGILL: Then negotiations have been proceeding for some time for the recovery of this equipment, without any . . .?

MR. HALLGRIMSON: I don't know whether I can answer by saying negotiations, certainly we've considered our position and it's part of perhaps a bigger . . .

MR. GREEN: They are still under the auspices of the MDC although instructions are being given directly to the lawyers through the government on the various lawsuits that MDC is involved in with Messrs. Kasser, Reiser, etc. There are still lawsuits in process and extradition proceedings.

MR. McGILL: Mr. Chairman, just a final question. I presume these are major units, approximately what value would you attach to those?

MR. HALLGRIMSON: I think it's about $750,000.00.

MR. McGILL: Thank you.

MR. CHAIRMAN: Mr. Johnston.

MR. GORDON JOHNSTON: Mr. Hallgrimson, you mentioned that considering world conditions you're operating near capacity, is that correct?

MR. HALLGRIMSON: Considering world . . .

MR. G. JOHNSTON: Yes. Like, you're producing to capacity . . .

MR. HALLGRIMSON: If you're talking about the pulp and paper mill, except for one shutdown which was due to market conditions we operated - and other down time, of course, as I pointed out, we had a substantial down time due to this boiler failure - but other than that we would be operating at full capacity.

MR. G. JOHNSTON: In doing this are you using all of the facilities that were built. What I'm getting at is a few years ago when I was there, there was this huge acres-size building that had in one corner a planing mill, I believe, and the rest was quite empty.

MR. HALLGRIMSON: I think you're probably referring to the Bertram Plant, this is what Mr. McGill . . .

MR. G. JOHNSTON: Not the machine shop. There was a planing mill in one corner . . .

MR. HALLGRIMSON: Sawmill.

MR. G. JOHNSTON: . . . of a huge huge building that was acres in size. What I'm trying to get at is, all the facilities that were designed and built, are you using them?

MR. HALLGRIMSON: Oh yes, we use the sawmill, of course, this might go back further because last year I would think the sawmill, although there's plenty of room in the sawmill, it would hardly be characterized as being something that is vacant.

MR. G. JOHNSTON: It's not waste space, no.

MR. HALLGRIMSON: But there's plenty of space in there. The building covers 11 acres.

MR. G. JOHNSTON: That's all in use?

MR. HALLGRIMSON: It's a sawmill.

MR. G. JOHNSTON: What is it for, storage or machinery or both?

MR. HALLGRIMSON: Well we have the saw lines in there, then we have dry kilns and cleaning equipment. It's certainly big enough, we're not short of any space.

MR. G. JOHNSTON: I noticed you talked in your report about the attendant increase in the cost of wood harvesting when you get to more inaccessible areas. I don't know how in this business you make judgments but do you have years of reserve of logging areas around you that's economic?

MR. HALLGRIMSON: Well, of course, as you know we have the Forestry Act which governs and sets the governmental requirements on harvesting wood. We have what we call the specified area, this goes back to the original agreements with Kasser and company, there was set aside for Churchill Forest Industries and associated companies an area of 40,000 square miles, this represents their cutting rights. Now at the time it went into receivership an inventory had not been completed of the area, this was completed shortly thereafter, within probably six months or so, and it was eventually determined what we could cut on an annual basis, this would be what's called an allowable cut and this would be in perpetuity. And for this area, if you were to harvest the whole thing, it was established to be 900,000 cords per year and this is on the basis that you could cut 900,000 cords in perpetuity there. We are presently cutting something around 350,000, but naturally if we were to cut another 350,000 cords or 400,000 cords we would have to reach out further and get into areas where undoubtedly it would cost more, the wood would cost more. The wood is there but this is a factor which, of course, has to be considered in an expansion.

MR. G. JOHNSTON: But going further distances, do you foresee a problem on your profit sheets?

MR. HALLGRIMSON: I'm not suggesting that it's insurmountable, I'm just pointing out that it is a factor and of course gets into the economics of the whole thing.

MR. G. JOHNSTON: What is the furthest distance you're hauling now?

MR. HALLGRIMSON: We haul, I guess the furthest would be 150 miles. We have a cutting camp area around Wabowden, and the other one is the Kisseynew area which is north of Cranberry Portage, and that would be probably 100 miles, 80 to 100 miles.

MR. G. JOHNSTON: I notice in the report that, I believe, it's mentioned you have just over 1,000 employees. Could you give us a breakdown how many are in the woods and how many in the mill?

MR. HALLGRIMSON: Yes, I can give you that, Sir.

MR. G. JOHNSTON: And how many are in the office . . . that's production in the mill and in the field and then the office staff?

MR. HALLGRIMSON: During the last year the total, and this would include employees of contractors, we do buy wood from contractors in the area so we have included them. The low in the whole complex was 1,057 employees and a high of 1,432. Maybe it would be better to take them - I can give you a breakdown of the low figures, of the 1,057. There were 419 people in the Woodlands division which included the Fence Post operation; there were 107 contract people, this would be in the harvesting of wood; the pulp and paper division 316; sawmill division 166; engineering division 22; and we had 18 people involved in construction; there's one person in the real estate division; and there are what we call eight corporate people in the corporate division;

MR. G. JOHNSTON: Of management, you mean?

MR. HALLGRIMSON: Yes.

MR. G. JOHNSTON: The government has stated from time to time their policy of trying to employ native northerners, Indians and Metis, in particular. How successful are you and what number do you have?

MR. HALLGRIMSON: Well of course it's difficult to give precise figures . . .

MR. G. JOHNSTON: Roughly then.

MR. HALLGRIMSON: Roughly. We feel that there is about, 30 percent of our work force is in that category. I think we have done fairly well in that respect because we certainly haven't had any complaints from anybody that we were not making a sincere attempt in employing native people.

One other comment. Of course divisions vary, there are probably a higher percentage of these people in the sawmill division. The Woodlands division would be next and the pulp and paper division would be the lowest percentage.

MR. G. JOHNSTON: In your labour-management relationship practice of hiring do you use a bonus for production purposes, are the hourly rated workers hourly rated or are they hourly rated with bonus for extra production?

MR. HALLGRIMSON: No, the only place where that would apply would be in the Woodlands, they're paid on the basis of what they cut; but in other areas they're on a straight hourly basis.

MR. G. JOHNSTON: That's all, Mr. Chairman.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Hallgrimson I want to go back to some of the assumptions that were made by Mr. McGill with respect to inflation, and I appreciate the fact that neither you nor I are economists, we are both lawyers. Is that correct?

MR. HALLGRIMSON: That's correct.

MR. GREEN: Do you have any economic advice or economic reports that indicate that the problem with expansion or the problem with markets relates to the rate of inflation in Canada, or is that just an assumption that you're making?

MR. HALLGRIMSON: Do I have any economic reports by economists?

MR. GREEN: Yes.

MR. HALLGRIMSON: No, I have no . . .

MR. GREEN: So I gather that you are sort of engaged in what we all engage in, sort

(MR. GREEN cont'd) . . . . .of engaged in what we all engage in, sort of top of the head economics, which I've heard suggested many times that the worker by inflation is pricing us out of the market, that that's really the assumption that Mr. McGill made and which you confirmed?

MR. HALLGRIMSON: No, I wasn't intending to suggest that it was solely labour costs, I meant that . . .

MR. GREEN: General inflation.

MR. HALLGRIMSON: Well . . . yes.

MR. GREEN: I'm not trying to sort of pin you down but I think that the statement that Mr. McGill made was that inflation is pricing us out of the foreign market, particularly the United States market where they have a lower rate of inflation. And I'm going to try to deal with my layman economics to see whether in fact there is any substance to this. My understanding of inflation is that for the same dollar you get less goods, that if the general rate of inflation was 13 percent and a worker received a 13 percent increase, that he would be exactly where he was the year before, that what would happen is that money would have been devalued by 13 percent.

MR. HALLGRIMSON: Well I'm not an economist but that sounds reasonable.

MR. GREEN: Does that sound reasonable to you?

MR. . . . Depends on what he does with . . .

MR. GREEN: I'm well aware of that. I'm talking about --(Interjection)--Now we do have an economist at the table, therefore we can deal with it even better. That globally, globally, if 13 percent was the rate of inflation and 13 percent was the increase then nothing will have changed in the country, it would be the equivalent of devaluating the dollar by 13 percent. That that is what has happened. Inflation means the chipping of a piece off the money and giving it the same value as it had before.

Now if that is the case and inflation in the United States proceeds at the rate of 11 percent as against Canada at the rate of 13 percent and the dollar floats, then for less American dollars you will be able to buy more Canadian dollars. If pure economics worked, then the inflation would have no effect on foreign purchasing power, that the value of the dollar in Canada would go down, the value of the dollar in the United States would go up and that the purchasing value of the American dollar relative to Canadian goods would be completely unchanged by inflation. Now you're not an economist, I'm not asking you to agree or to disagree, but I am suggesting that that is the case, and that those people who say that inflation prices you out of the marketplace just do not know what they are talking about.

Is it not a fact that in 1935 President Roosevelt devalued the dollar by roughly 50 percent hoping that the other countries wouldn't do likewise and this would increase purchasing in the United States. Now it happened that everybody then followed suit and there was no change and that in 1962 the Right Honourable John Diefenbaker devalued the dollar by $8\frac{1}{2}$ percent in the hope that this would increase purchasing by the United States and Canada.

In any event, you have no economic report or analysis other than Mr. McGill's that the problem with this plant relates to the inflation in Canada?

MR. HALLGRIMSON: I have no economic report and perhaps the word "inflation" if we got tied down to that, really all I was trying to indicate was that our costs and I know that our costs are higher than our counterparts in the United States.

MR. GREEN: All right. Now if wages went up higher than the rate of inflation that would be an increased cost. That has happened not with wages, it has happened with oil prices, oil prices have gone up much higher than the rate of inflation and there have been no labour costs involved at all, so that the problem with Canadian sales vis-a-vis the United States if they didn't have similar increases in costs in oil prices, and they have had would, be much more related to oil prices than they would be to workers' prices.

MR. HALLGRIMSON: Oh I agree completely with that. I'm not suggesting that, and I would certainly want to correct any impression that it was solely labour rates. The fact is, of course, that labour rates are lower, whatever that means, but certainly there are other areas where the difference of course is even greater. I pointed out that for instance on transportation that the cost of transporting Bunker C. to The Pas has

(MR. HALLGRIMSON cont'd) . . . . .doubled and I don't think we have any wage rates that have doubled. I would point out though with respect to exchange rates on our export sales we realize less because --(Interjection)-- that's right, but if it were devalued we'd have no objection. But actually it's working the other way today, we lose two or three percent, so it isn't helping to overcome that problem right now.

MR. EVANS: Mr. Chairman, would Mr. Hallgrimson care to comment - he's got different types of products, I wondered if he could comment on his markets, his markets are essentially foreign markets namely American, although I'm not sure to what degree you sell in Canada versus the United States. Could you tell us what percentage of your sales is in Canada as opposed to the United States?

MR. HALLGRIMSON: Yes, I certainly could, Mr. Minister. No, we're not essentially - our exports don't predominate. In paper, we are now selling 60 percent of our paper in Canada and the balance, of course, is exported to . . . 50.9 percent domestic in '75; 28.5 percent U.S. and 21 percent to other countries and there's about 10 countries.

MR. EVANS: So the fact is then that the major sales is domestic, not foreign, I think maybe some members thought that the bulk of your sales were foreign. Would you say that . . .

MR. CHAIRMAN: (Mr. Bostrom), Order please. We've got a list, Mr. Evans.

MR. EVANS: Oh I'm sorry, I didn't realize that . . .

MR. CHAIRMAN: Mr. Barrow is next.

MR. BARROWS: Thank you, Mr. Chairman. Mr. Hallgrimson, your road system for bringing the timber out of the bush, this opens up potential for tourism of course, but I'm more interested in the remote areas, I'm referring to a place like Sherridon where your road touches close to there I understand. Is there any policy in that regard to put these areas on a road system or do you consider that at all?

MR. HALLGRIMSON: I know the area you're talking about and I think that, is it Kay Lake?

MR. BARROW: Yes, Kisseynew area.

MR. HALLGRIMSON: Kisseynew area, yes. Certainly in the next two to three years I think that we would project to put in a logging road over towards the railroad I think . . .

MR. BARROW: That's at Sherridon.

MR. HALLGRIMSON: That's right. And I would hope that if we were to do anything like that that we could co-ordinate our plans with the various government departments that might have some interest in that because eventually that road could go to Sherridon as I understand it, we have made no firm decision on it, but it's certainly something that could develop I guess within the forseeable future.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well my target has left, Mr. Chairman. I simply wanted to join this debate on economics and I was intrigued by the statement that if a person's income went up by 13 percent and his living costs went up by 13 percent that he was in the same position as he was the year before. Of course, the problem is that that's not true. He's fallen behind because by moving up 13 percent he's moved up into a higher tax bracket and he's giving the government more money so you have to add that factor into the picture. The only winner out of the 13 percent increase is the government

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, again, I just wanted to say that in discussing the rate of inflation and the increasing costs, as Mr. Hallgrimson said, we were talking about total operating costs. I'm a layman, I'm not an economist and I had offered the opinion that when our rate of inflation is approximately, to exaggerate a bit, double that of the United States where we intend to sell a portion of our production, that our difficulties increase where they're spread and the rate of inflation is great.

Mr. Green said that he was not an economist and after hearing his opinions, I would go along with that. I think that there's certainly a great deal of difference between his view of what happens in an inflated economy in relation to its customers where they have been more successful in maintaining some reduced inflationary rate. But we're getting a little away, I think, from the basis of this meeting.

MR. CHAIRMAN: I would agree. Mr. Evans.

MR. EVANS: Yes. Mr. Chairman, it's very intriguing as to what are the fundamental problems facing ManFor, Manitoba Forest Resources Limited, and there have been references made to inflation, but I read this document, which I have just seen for the first time, and my impression is that the chief source of difficulty is weak markets, as I read through this. I wonder if you could comment on that, that the fact is that the markets have tended to be weaker, they've tended to fall off in many of your divisions. Is this the case?

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: Oh there's no question about that. Certainly in the year under review, 1975 was a year which there was a severe drop in the demand for pulp and paper, worldwide, and we're simply, you know, beginning a recovery from that period, and the question I think of inflated costs rose really in relation to the current situation in which I pointed out that we were now experiencing the full effect of increased costs in all respects, and that was more . . .

MR. EVANS: Well, Mr. Chairman, through you to Mr. Hallgrimson, would you say therefore that your company was really a victim, at least in this period under review, a victim or being adversely affected by the recessionary forces that are prevalent in North America and in fact the western economy in general, that you are being affected by the very massive recession, the biggest recession the United States has faced I think since the 1930s, and perhaps western Europe as well.

MR. HALLGRIMSON: I would confirm that, that was our big concern in 1975.

MR. EVANS: Just on a different line, and this is for my own edification. On Statement 1 of the Balance Sheet, I'm looking at your liabilities, your long-term debt totals $74,476,000, and I look at your shareholders equity and that comes to $90,457,000.00. In your opinion is this the type of ratio that a company should maintain, that is equity versus long-term debt, in other words your equity, common and preferred $90,457,000 exceeds the long-term debt. Is that a normal type of relationship?

MR. HALLGRIMSON: The long-term debt is graded for two different types of securities. One is, there's a rate of interest at seven percent, the other is an income debenture which only comes into operation if we make a profit. I don't know whether I can really . . .

MR. GREEN: (Inaudible)

MR. EVANS: Well this is a supplementary question. The government in effect, or through the MDC, we have eased the capital or debt burden of ManFor - and to what extent through the MDC did we ease the debt burden. Is it the 28 million, is that the number? 28 plus what?

MR. HALLGRIMSON: It's 45 plus 28 . . .

MR. EVANS: Oh, I didn't see the other . . .

MR. HALLGRIMSON: We pay interest of about $3.1 million, that's the fixed obligation.

MR. GREEN: We pay interest on $30 million and $150 million was advanced, so there is 120 on which they do not pay interest.

MR. EVANS: $120 million on which they don't pay interest.

MR. GREEN: Well they will if there is income on it.

MR. EVANS: I see.

MR. GREEN: But the income debenture is not payable unless . . .They pay this on rough returns . . .

MR. HALLGRIMSON: No, no 45.

MR. GREEN: 45, I'm sorry. 100 and . . .

MR. HALLGRIMSON: Seven percent on 45 million, it's $3.1 million dollars.

MR. GREEN: 105 on which they do not pay interest. On the balance they pay 7 percent?

MR. HALLGRIMSON: Yes.

MR. EVANS: So there's a two percent subsidy on that too.

MR. HALLGRIMSON: Yes.

MR. EVANS: So if you didn't have these, if I can use the term, sort of capital writeoffs or protection or whatever the expression is - no, that's not a very good

(MR. EVANS cont'd) . . . . . word, I didn't mean that - but this adjustment that was made, how much roughly would you have added to your interest payments in this fiscal year, you know just roughly speaking?

MR. HALLGRIMSON: Well it would be the interest on whatever the issued shares are, would be seven percent of 70 million, that's about $5 million, so that would be . . .

MR. EVANS: So you'd be in a worse position by roughly $5 million.

MR. HALLGRIMSON: Oh yes. This of course is all based on an agreement which is entered into between the government, the MDC and . . .I don't want to go into the history of the project but, you know, I think it's taken for granted that based on the original '69 costs that these were inflated costs to some extent. I don't think I'm mis-stating anything by drawing that conclusion. So it would be unreasonable to expect an enterprise of this nature to carry that... it would even be unreasonable to expect it to carry 89 percent, whatever it was, or 86 percent of the normal cost let alone an inflated cost. I think as it's established now that it is a reasonable figure, there are companies undoubtedly that have a lower fixed long-term debt and are larger than we are and there may be some that are smaller, I think under normal conditions that's quite reasonable and what really has happened this year is that we haven't been able to meet our depreciation and we have, no pun intended, a paper loss of $4.1 million.

MR. EVANS: But it would have been a much bigger loss if . . .

MR. HALLGRIMSON: Oh it would have been a horrendous loss, but I would say then that you'd have horrendous losses even in '74 which was considered to be an exceptional year for companies in this field. We would have suffered a substantial loss then.

MR. EVANS: So in effect we tried to avoid the situation that the CNR has faced over these many years of having a very high debt, we've tried to bring it into a realistic proportion debt versus equity but even so, given the massive recession in the United States, in Canada, the western economy, in spite of the terrific efforts I know that you and your staff are making, we have realized unfortunately this particular deficit that you indicated in your report.

MR. HALLGRIMSON: That's correct.

MR. CHAIRMAN: Any further questions? Hearing none, what's the procedure, will we accept their report?

Mr. Evans moves, seconded by Mr. McGill that the report be received. Thank you, Mr. Hallgrimson.

MR. HALLGRIMSON: Thank you, gentlemen.

* * * * * * * * * *

MR. CHAIRMAN: Order, gentlemen. I'll ask the Minister, the Honourable Leonard Evans to introduce the officers of the company.

MR. EVANS: Mr. Chairman, it's my pleasure again to introduce to the committee Mr. Robert A. Clement, Q.C., who I believe is known to most members of the committee since he has appeared previously before the Legislative Committee on Economic Development, and with him is Mr. William Moore the President of the company. Mr. Clement is a well-known Brandon lawyer and has had considerable experience also in business development, particularly in western Manitoba. I'm very pleased to note that his company, McKenzie Seeds has made a considerable amount of progress under his chairmanship. I know he has dedicated a good deal of his time, he's not a full-time chairman as we have in some Crown corporations but he certainly has dedicated a good deal of his time and energy and has a very good appreciation of the problems and challenges facing the company. So I would welcome on behalf of the Committee, Mr. Chairman, yourself, Mr. Clement.

MR. CHAIRMAN: Thank you very much. Mr. Clement, would you proceed please.

MR. ROBERT CLEMENT: Mr. Chairman, Mr. Minister, you have distributed to you in a rather colourful folder a financial report. The first page is the usual Auditor's Certificate from Meyers, Norris, Penny and Company who have been auditing this company for many years.

(MR. CLEMENT cont'd)

Perhaps the first thing I should say is that there is no real basis of comparison in this report because while it's a consolidated report it consolidates the companies, that is A.E. McKenzie Company Limited, Steele Briggs Company Limited and McFadyen Seeds, whereas last year in addition there were the earnings and expenses of Brett-Young Seeds. Brett-Young Seeds was sold during the fiscal year covered by this period and therefore its earnings or liabilities do not appear in the statement of earnings or liabilities.

As a matter of interest and of fact Brett-Young Seeds during the last year of its existence as a subsidiary of McKenzies started to lose money and this was one of the reasons for seeking out a sale. The management of Brett-Young felt that world conditions and North American conditions were such that they probably could not operate in that year at a profit and we were able to, with the help of the Manitoba Development Corporation, find a very satisfactory sale for Brett-Young, which is referred to in the notes. The result of this, that any loss that they might have occurred was held to approximately $100,000 and you will see that set forth on the page, about the middle. . . the pages aren't numbered but it's the Statement of Earnings page. And down toward the bottom you will see Disposal of Investment, Note 10, $105,868. That was the loss on the inventory of Brett-Young which was disposed of at the time of the sale of the buildings, and there was a net loss because prices were quite low at that time. However, the price for the buildings and the equipment was quite high in the view of the appraisers that we had discuss the matter with us, so on the net we felt that it was an advantageous sale. With the earnings that were paid to McKenzie over the years and the sales, it produced $1,900,000 in clear profit, largely of a capital nature from the sale without any expenditure on the part of McKenzie. So that it would appear to have been a good venture and it would appear to have been a good thing to dispose of the venture when we did, when it started to lose money.

MR. CHAIRMAN: (Mr. Shafransky) Thank you, Mr. Clement. Are there any questions? Mr. McGill.

MR. McGILL: Mr. Chairman, to Mr. Clement. I wonder if he could explain to the committee just what changes have taken place in the ownership of shares in McKenzie Seeds. I believe that for a number of years approximately 90 percent of the shares of McKenzie Seeds were held by the province in trust for Brandon College, now Brandon University, and that some 10 percent of the shares were in a Foundation, that were retained by Mr. McKenzie and then held by the Trust company in a Foundation. Now can you explain, Mr. Clement, just what has taken place to bring the company now to, I understand, a wholly-owned Crown corporation of the Province of Manitoba.

MR. CLEMENT: Well I can only answer that from general knowledge because I wasn't a party to the dealings between the owners of the shares, but I understand that during the year Brandon University quitclaimed its claim to the shares which were held in a trust for education in the Province of Manitoba, and that these shares were thereupon transferred to the Province of Manitoba, the ownership. And that likewise certain shares which were held by the trust company for the benefit of the children of the late A. E. McKenzie were released by the sole surviving child of A. E. McKenzie, and that is Mrs. Roberts, she released those shares to be transferred to the Provincial Government. And as I understand it there was no cash changed hands, it was a voluntary transfer, but the company itself and the Board of Directors were not involved in this transaction. I just speak from the knowledge I have of it.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Then, Mr. Chairman, since the company was not involved in these changes in the ownership of shares I wonder if we could find out from a representative of the province who is knowledgeable about this negotiation exactly what took place. I think it's rather important to get this on the record because this McKenzie gift to the university or the province, depending on how you look at it, has been something that has been under discussion and has come up frequently in the past years, and particularly when the province became extremely active in the direct

(MR. McGILL cont'd) . . . . .operation of the A. E. McKenzie Company. So I think it's important for all of us to have a complete understanding of how this change in the ownership of shares took place and to how it came about that as of this date the province now owns all shares in the company.

MR. CHAIRMAN: Mr. Evans.

MR. EVANS: Mr. Chairman, speaking on behalf of the shareholders, the province, I would simply say that the deal or the arrangements, the process is not fully completed and when it is completed there will be a statement issued at that time. I want to disabuse any member of the committee from the notion that there were substantial or even modest contributions made by the A. E. McKenzie Company toward Brandon University. Brandon University never benefited from any profit of this company to the best of my recollection. The legislation which established this arrangement provided for moneys to be paid to the university providing only, of course, that profits were made, but not just profits but profits above a certain level, and this was never achieved in the history of the company since the late A. E. McKenzie died. There was moneys and moneys are paid out on a regular basis from a trust fund but that is an amount of money that was put into that fund many many years ago. So whether the province owns 90 percent or 100 percent it has not, to this point, it makes no difference or it has made no difference, would have made no difference over the years as far as payment to Brandon University, because Brandon University never did receive any payments from the profits of this company, mainly because it has been some years very unprofitable and those years that it did show some profit it wasn't adequate. But a statement will be made when this is finally completed, but that process is not completed.

MR. CHAIRMAN: Thank you. Mr. McGill.

MR. McGILL: Mr. Chairman, to Mr. Evans. Does the province at this time own 100 percent of the shares of the A. E. McKenzie Company?

MR. CHAIRMAN: Mr. Evans.

MR. EVANS: Yes, there is, as Mr. Clement pointed out, there was a quitclaim, I think (is that the expression) issued, but there are other elements of this that are still under negotiation or in process.

MR. McGILL: Mr. Chairman, then on what authority were the shares from the Foundation turned over to the Province of Manitoba? Who or what body would authorize that change of ownership?

MR. EVANS: Well as I understand it this was by mutual agreement between the parties.

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: Mr. Evans, there was a resolution of the Board of Governors of Brandon University authorizing the actual transfer of the shares and it was so done.

MR. McGILL: Mr. Chairman, then I understand that the Board of Governors of Brandon University by resolution turned over the 10 percent of the shares that were in the trust company to the Province of Manitoba.

MR. CLEMENT: This is my understanding.

MR. GREEN: Well, Mr. Chairman, because we don't want people saying things that they're not certain of, I think that if there's anything questioned it would have to be questioned by the parties. There are parties involved and they are able to deal with each other and if there is any dispute then that would have to be done by the parties. And the only reason I'm saying this is that I don't want either Mr. Evans or Mr. Clement to be held to a statement on a record of something which is being dealt with, with the legal rights of each person being protected by their own legal position.

MR. McGILL: Mr. Chairman, I am asking these questions merely to have a complete understanding of the way in which the ownership, the complete ownership of A. E. McKenzie now rests with the Province of Manitoba, and I think it's appropriate to the discussion . . .

MR. GREEN: . . .anything to do with the operations of A. E. McKenzie which we are having reported to us. The Minister has indicated that as to the relations between the shareholders, and you know, maybe I should give this as notice that when Tantalum comes up the relations between the shareholders are something to be dealt with by the

(MR. GREEN cont'd) . . . . .various shareholders. Mr. Clement is here to report on the operations of a company and I gather that he really doesn't take an interest in the relations between the shareholders.

MR. CHAIRMAN: Thank you, Mr. Green, that's what I was about to point out, that what we're dealing with is the Annual Report and not the relationship between how the stock or the remaining 10 percent has been transferred. That is a matter that you can question in the House, you can question the Minister, but we are here to have the Annual Report reviewed of the McKenzie Seed Company.

MR. GREEN: Mr. Chairman, I also wish to point out that sometimes it's convenient to give information even though it's not exact and I don't think anything is intended to be hidden. What Mr. Evans has said is when the thing is completed he will be making a statement.

MR. CHAIRMAN: Thank you. Mr. McGill.

MR. McGILL: Well, Mr. Chairman, I think we have been reviewing the statements annually for A. E. McKenzie company for two or three years now and during this current period under review a change did take place in the ownership of the company, so I think it's appropriate to the discussion of the affairs of the company that this . . .

MR. CHAIRMAN: Well it would not be appropriate to the discussion of the affairs with the Chairman, it would be appropriate to discuss them with the appropriate Minister and in the House. If you have questions on that matter I'm sure you can raise it.

MR. McGILL: Well we're quite prepared to raise them at that time but I do think that the discussions we've had up to this point are certainly valid and should not be in any way construed as being of a critical nature. We simply were asking for information about the reason of the transfer.

Now, Mr. Chairman, to Mr. Clement, we discussed a number of items during the discussion of the report last year and I think it would be interesting to be brought up to date on those matters. There were several matters that I brought to your attention last year. One was the state of the Mexican affair, the involvement of McKenzie Seeds with a Mexican Company, the other was Sabetha Seeds of Kansas, and perhaps, Mr. Clement you could tell us how the company stands with respect to the Mexican venture.

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: There has been no change since last year in the Mexican matter. In the matter of the Sabetha Seeds, they have paid every note promptly as it came due, and we are very satisfied with our relations with them.

MR. McGILL: I think last year we discussed the matter of some new management approaches to the operation of McKenzie Seed in some attempt to streamline the administrative cost and the general cost of doing business. I wonder, in what respect has the management succeeded in that area of the operation. Have you any comment to make on that?

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: The Board of Directors and myself have been reassured and heartened by the efforts of the management to bring our costs under control. We think there has been a good measure of success in eliminating duplicated costs that did occur by operating two companies, that is Steele Briggs and McKenzies, from two different locations. They seem to be working well now out of one location. We are able to produce twice as much package seed in our Brandon plant as were produced in the Brandon plant previously, we are able to supply the market, and this year our freight shipments were out well ahead of the market which is an indication of efficiency in management and it did away with some of the demands for overtime work that had been necessary in previous years to fill the market demands for package seeds. And there is also a considerable saving in communications, that is telephone, and travel expenses in operating one head office and one plant all in one location.

While it takes one to two years for matters of these kind to be reflected in a balance sheet, if you would like to look again at the statement of earnings to which I referred previously, you will see down around the middle, net earnings from operations, $25,323. That indicates that, and is certified by the accountant, that was a profit from

(MR. CLEMENTS cont'd) . . . . .the operation of McKenzies during that twelve-month period. The other two items which appear underneath there, one is the loss on the disposal of the inventory of Brett-Young Seeds, and the other item of $538,138, is the next, were sales adjustment made with large buyers in the form of rebates and discounts for volume selling. They did not relate to the year under consideration, they related to a previous year and have been under negotiation with these larger buyers and were resolved and paid by McKenzies in 1975. So that the Board of Directors are pleased and reassured to note that the operation is showing slightly better than a break-even position after consolidation.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, Mr. Clement made reference or replied in connection with Sabetha Seed, I understood him to say that there was no loss of any kind involved in that operation or the winding up of the connection. There's a note, No. 4, in the financial statements which says that the company holds notes receivable from Sabetha Seeds amounting to $135,000 of which $40,000 bears interest at 9 percent, the remainder are non-interest bearing. That would leave $95,000 not bearing interest. Could Mr. Clement explain that particular item?

MR. CLEMENT: This was the arrangement that was made when the shares of Sabetha Seed were returned to the person from whom they had been optioned, and the agreement was that if he didn't make his payments on time he would pay interest, and on some of the return of money he would pay interest. It was simply a negotiated agreement, that some of the payments would bear interest and some wouldn't. They were all personally guaranteed by this individual and he has paid them all, and since then they have been paid down to $100,000 - since the date of this statement.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, it was noted that these statements being on a slightly different basis than previous ones are not really comparable to the previous financial statements. I note that most of the deficit for the year's operation is for some unusual and non-recurring items, one of which is an inventory loss at Brett-Young. Was that the result of inflated inventory values at the time the company was purchased by the McKenzie Seed Company?

MR. CLEMENT: No, this was current inventory that had been purchased at current prices and then because of the fact that we had an opportunity to sell the plants and buildings against a time limit, we had to sell the inventory as well, at a time not of our choosing, so that the market was lower at that time than it had been when the inventory had been purchased, these . . .seed markets apparently are fairly volatile, there's no inflation in the price if it's an actual inventory that's carried at cost.

MR. McGILL: So that really the net gain to McKenzies of $1.9 million roughly in the disposal of Brett-Young could have been reduced by this $351,000, that would have been another way to state the position, is that essentially correct?

MR. CLEMENT: Well, the note gathers up the net, after having returned to all these fluctuating items, the footnote $1.9 million gathers up the net benefit to McKenzies. There were a number of adjustments to be made, we had not fully paid out to shareholders of Brett-Young for buying their shares. They just figure after all items of that nature are taken into account, there is a net return to McKenzies of $1.9 million.

MR. McGILL: Mr. Chairman, we're seven months into McKenzie's current fiscal year, what is the assessment of your performance up to this date, and what do you anticipate will be the approximate financial results of this current year?

MR. CLEMENT: In November and December of 1975, we projected the earnings and expenses of McKenzies with considerable care, in fact, we projected them with extreme care because we wanted to be right - well as well as you can be right in a seasonal business. These projections showed that the first six months of this present year, 1976, would show a profit of approximately $1,400,000 to $1,500,000, in between those figures, net profit. --(Interjection)-- After interest, after interest, and after all expenses, $1,400,000 to $1,500,000. That was our projection. Now, you bear in mind this projection that most of our revenue comes in the first six months of the year, and our expenses continue into the last six months of the year. So that won't be the year-end problem. But our auditors have now checked the first six months of this current

(MR. CLEMENT cont'd) . . . . .year, and they have produced a statement which they are now typing and if I'd been a few days later in being called before the committee, I'd have it with me to show you, but I have taken a note of what the audited statement will be, and it will show a net profit for the first six months of $1,400,000 after payment of interest and all expenses.

Now, similarly, back in November and December, our management with the Board of Directors made a projection for the last six months of 1976, and that's a lot easier to do because it's mostly an expense six months, and as the result of that projection we calculated that the net profits at the end of the twelve-month period would increase from $25,000, which it had been in the previous year, would increase to between $300,000 and $600,000. We are reasonably satisfied that it will be well over $300,000 and that it might reach $600,000, because our returns from sales are just beginning to come in from the consignment sales. We have taken a very low count of sales to arrive at this profit and we feel a good deal of satisfaction from this projection and from the fact that the first six months which is a more difficult period to project because you have to project both sales and expenses and it was extraordinarily accurate in a seasonal business that depends on Canada-wide sales.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, that's a very encouraging report and I hope that when we review the statement next year that we will find that this kind of improvement has taken place. I wonder, how does the total employment, the number of people employed by the company at this stage compare with a year ago?

MR. CLEMENT: Well, now, in all of Manitoba, in the year 1973 to 1974, the total payroll was $1,044,705. In last year, 1974 and '75, it increased to $1,381,380. Perhaps the meaningful figure is worked out by a man hours or a person hours account; in 1973-74 there was an average in Manitoba of 156 employees and in 1974-75 there was an average of 198 employees in Manitoba.

MR. McGILL: Are all these employees in the Brandon area or do you maintain an office in Winnipeg?

MR. CLEMENT: We have employees in Winnipeg, an average of about seven now, and there were fifteen previously.

MR. McGILL: How is the move of the head office to Brandon worked out in terms of economics, has this presented any major difficulty in the operation of the company?

MR. CLEMENT: I think the sales people in Winnipeg would sooner have the head office in Winnipeg, but apart from that it's worked very satisfactorily because the people in charge of sales as well as the people in charge of plant production are all in the same building and they can talk to each other on a daily basis. If there are problems in production or in shipping out they can be dealt with and handled immediately instead of going back from Winnipeg to Brandon over matters, and it, I think, has improved both efficiency and staff morale to have all the important people, except our sales people, in Brandon.

MR. McGILL: Have you been able to reflect this in terms of dollars saved in administrative costs?

MR. CLEMENT: Well, in the way of holding the line, we have. I think perhaps, I wouldn't say that it's cheaper in actual dollars to do it this way but I think we've saved expenses we otherwise would have had.

MR. McGILL: I have no further questions.

MR. CHAIRMAN: Mr. Barrow.

MR. BARROW: Just one question, Mr. Chairman. Would you comment on the question of equity invested in the company? I note that the equity is only $145,000 out of a total liability of about $7.2 million, approximately.

MR. CLEMENT: Equity usually has to take account of working capital, and as you can see from the statement McKenzies has to borrow its working capital, it's dollar working capital. The kind of equity McKenzies has is really intangible, it doesn't show on this balance sheet at all. It's the fact that we have an operating plant; we have a wonderful group of loyal employees and we have some expertise in the kind of market that we're in. That is in packaging and distributing seeds.

(MR. CLEMENT cont'd)

Because of the injection of funds over the last two or three years into McKenzies, we were able to be in good standing with our suppliers. Last year there was a panic that seeds might have to be rationed in parts of Canada. We were able to avoid that because our suppliers sold us and delivered the seeds on time so that we could pack them and get them out to the various points of sale. So really that's our equity and it doesn't show on the balance sheet.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Clement, you've heard a statement just presented recently with regard to Churchill Forest Industries, you happened to be here. You will note that in that statement over two-thirds of their liabilities have been non-interest bearing. You show on this last year's statement, which was not a good year, you show a loss of $644,000. You show interest charges of $934,000. If you had a similar situation, if your statement was prepared on the same basis as the Churchill Forest Industries statement and two-thirds of your interest charges were written off, you would not have lost a cent. Is that correct?

MR. CLEMENT: That's quite true.

MR. GREEN: And that is merely bookkeeping, that doesn't change anything.

MR. CLEMENT: No.

MR. GREEN: An auditor would have a lot of fun showing how you could make money but you wouldn't have done any better, would you?

MR. CLEMENT: No.

MR. GREEN: So an auditor could make money where you can't or I can't. All he has to do is write off interest charges.

MR. CLEMENT: Yes.

MR. GREEN: Now, Mr. Clement, I'm going to go into a rather dangerous --(Interjection)-- I'm sorry.

MR. CLEMENT: In that connection, Mr. Green, the one figure of interest covers both bank interest and interest payable to the Province of Manitoba through the Manitoba Development Corporation.

MR. GREEN: It's all liabilities.

MR. CLEMENT: So that about $600,000 of it was paid to the banks and about $300,000 was paid to the Province of Manitoba.

MR. GREEN: In addition to which Churchill Forest Industries pay 7 percent. Can you tell me where I can get 7 percent? What are you paying now?

MR. CLEMENT: We're paying 11-1/4 percent.

MR. GREEN: If you were paying 7 percent this would be reduced by roughly 50 percent. Your interest charges go down by $200,000 two or three hundred. So you would have made $200,000 if your statement was prepared on the basis of the statement of Churchill Forest Industries which the former Leader of the Opposition says is the only one that is making a profit.

MR. CLEMENT: Yes.

MR. GREEN: All right. Now, Mr. Clement, I'm going to go into a more dangerous field because the only knowledge I have of you is the knowledge that I have of you appearing before this Committee. We really don't know each other. You are the Cahirman of this company for the public. Do you find that because you are working for the public you work less hard than if you were working for some of your other clients?

MR. CLEMENT: Well I really take a great pride in this company and it doesn't matter to me whether it was privately owned or publicly owned, I would feel that it is a very good thing for Brandon.

MR. GREEN: So you don't find that working for the public has made you lazy and shiftless and not wanting to produce. --(Interjection)-- Do you find that working for the public has made any of your staff or your employees lazy and shiftless and not caring whether they make a dollar or not? Do you find that to be the case?

MR. CLEMENT: Well, Mr. Green, I don't go into that field of employee relationships in the company. Our Board of Directors works through Mr. Moore who is the manager and we try very hard not to interfere in the day-to-day work. But since we're all living in Brandon I know quite a number of the employees personally and I don't think there's a more dedicated group of people that could be found.

MR. GREEN: Working for the public. I'm shocked, Mr. Clement.

MR. CLEMENT: Well I don't think they regard it as working for the public. I think they're proud of working for McKenzies. They've always worked for McKenzies and I think they're proud of that, of doing a good job.

MR. GREEN: The fact that it is now owned by the public of Manitoba has not reduced their incentive.

MR. CLEMENT: I can't . . .

MR. GREEN: I believe that they are aware that this company has at least not been privately owned for many many years. They're not under the mistaken illusion that they are working for some rugged individualistic entrepreneur who is the only one who can instil enthusiasm for work. You don't think that they believe that. How about your manager? Has he . . .

MR. CLEMENT: I think the employees all know it's a publicly owned company.

MR. GREEN: Your manager hasn't shown any inclination to run to the golf course every afternoon because he's working for the public.

MR. CLEMENT: I understand he plays a rotten game of golf.

MR. GREEN: I have no further questions.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Thank you, Mr. Chairman. Just a few brief questions with regards to the Brett-Young sale to Pooles. You mention here that the disposal of investment, you lost a little better than $100,000. What was the total inventory sold at that time? Could you give us a rough idea on that?

MR. CLEMENT: I think I have it listed here. Between 1.4 and 1.5 million dollars, Mr. Moore informs me.

MR. BANMAN: Then the disposal, the total sale let's say, including inventory as well as the buildings and the fixed assets, what would that total sale come to?

MR. CLEMENT: Well the plant was sold for $1.7 million. Then there were various other - we sold the charter for $5,000.

MR. BANMAN: This money that was received, was that used to reduce the bank financing and reduce the . . .

MR. CLEMENT: Paid into the Bank of Montreal in Brandon the minute we got it, and stop the interest. We got it in a series of payments.

MR. BANMAN: So would it be safe to say that the sale did reduce your debt load by about $3 million?

MR. CLEMENT: Yes.

MR. BANMAN: Just very briefly, in the last year . . .

MR. CLEMENT: That debt load wasn't all McKenzies. Part of that debt load was Brett-Young. They borrowed back and forth from the bank, too. But it did reduce the total debt load by about that much.

MR. BANMAN: What was the reason for this almost sudden turn around of Brett-Young. Why would they all of a sudden go into a red situation?

MR. CLEMENT: They told us it was world conditions. It's quite largely a brokerage type of business where you try and buy cheaply and sell high. For instance, they would buy a carload of grass seed and try to sell it the same day in a different market.

A MEMBER: You're better with grass --(Interjection)--

MR. BANMAN: As far as the hatchery division and that, that all went in the sale? That was all sold along with . . .

MR. CLEMENT: Yes, the hatchery was disposed of.

MR. BANMAN: Sold to Pooles, also.

MR. CLEMENTS: It had practically wound itself up. It was not making money, the hatchery, the last two years. It wound itself up at the same time as the sale. Nobody paid anything for it.

MR. BANMAN: Again, on the statement of earnings we talk about extra-ordinary items such as the rebate or the incentive for volume purchasing. Is this practice being continued by the company?

MR. CLEMENT: Yes but our accounts receivable are now very well balanced so that when these things become due we are able to pay them immediately and this has made for a very good relationship with the large department stores that we deal with.

MR. BANMAN: The only point that I'm trying to make here is as far as extraordinary items, next year they will appear again on the statement. In other words . . .

MR. CLEMENT: They won't.

MR. BANMAN: They won't?

MR. CLEMENT: No this appears because it wasn't incurred in the year under review. It was incurred in a prior year but paid in this year because of negotiations that went on until we could decide how much was properly payable and that decision was made in that year and paid. But it wasn't a cost really of doing business in that year.

MR. BANMAN: So next year it will appear as a regular selling expense.

MR. CLEMENT: Yes, it will be part of the regular selling expense.

MR. BANMAN: Yes thank you.

MR. CLEMENT: All the rebates that we make.

MR. CHAIRMAN: Mr. Evans. On a point of order?

MR. EVANS: No, no. Is there anyone else on the list?

MR. CHAIRMAN: Yes. Mr. McGill.

MR. McGILL: Mr. Chairman, I perhaps shouldn't really comment on this remark of Mr. Green but since he made the same remark last year I think I have to respond. He is attempting to compare the auditor's treatment of a company that went into receivership and started up under new management with a debt load which they had not themselves incurred and as a result there was an adjustment of the interest charges. On the other hand, A. E. McKenzie Company has incurred a debt load and interest charges which were the result of positive management decisions during the period of their running the business. So there is a great deal of difference between the position which Mr. Green describes for ManFor and the accounting adjustments that were made, and the fact that the management of A. E. McKenzies, for better or worse, made decisions to buy companies and use bank borrowings to do it. It subsequently turned out this was a very expensive way to acquire subsidiaries and some of them, the marketable ones, were disposed of and that bank loan was reduced as it should have been. Mr. Chairman, I merely point out that Mr. Green's annual statement on the comparison here is somewhat invalid. --(Interjection)--

MR. CHAIRMAN: Thank you. Mr. Evans.

MR. EVANS: Mr. Chairman, I wonder if the Chairman, Mr. Clement, could comment on the marketing situation. This is a very competitive business and there are always new companies appearing and some are disappearing and so on. Are you maintaining your share of the national market? I know you have some very large accounts; are you managing to hold those accounts? How are you doing sales-wise?

MR. CHAIRMAN: Mr. Clement.

MR. CLEMENT: Our sales are holding very well and we expect to have a moderate increase again this year. There are a lot more competitors in the Canadian market, particularly from the United States seeking to get a position with the chain stores. So far we have not lost any significant accounts to the competition and management are taking some rather interesting steps towards the future.

Looking back to the war years, the growing of some vegetable seeds was undertaken in Canada as a war measure. Then because of cost considerations these seeds became grown in California or in Mexico. We have now contracted out 300 acres in the Carman area of Manitoba for the growing of beans, peas and radish seed. This is an experiment . . .

MR. EVANS: The Chairman has commented, as I understand, you are now attempting to grow seed in Manitoba or buy from Manitoba seed growers as opposed to buying from California. And this is in the Carman area.

MR. CLEMENT: This is in the Carman area.

MR. CHAIRMAN: Thank you. That concludes the questions on the Annual Report of A. E. McKenzie Company Limited for the year ended 31st October, 1975. Would somebody move the report be received? Is it agreed? (Agreed). Thank you, Mr. Clement.

Committee rise.