Legislative Assembly of Manitoba

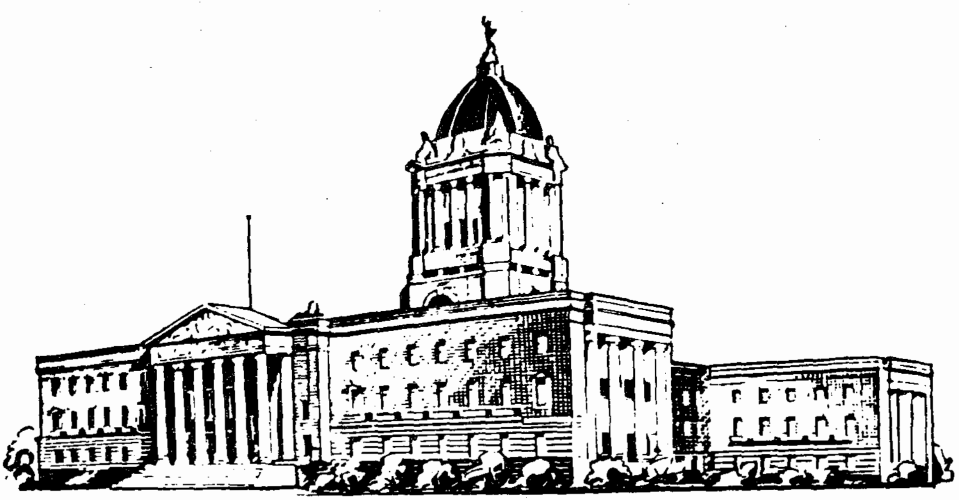
HEARING OF THE STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

Chairman

Mr. D. James Walding
Constituency of St. Vital



THURSDAY, May, 26, 1977, 8:00 p.m.

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ИE: 8:00 p.m.

IAIRMAN, Mr. D. James Walding

MR. CHAIRMAN: The Committee will come to order. On the agenda for this evening's meeting are ; annual reports of the Manitoba Forestry Resources Limited and the Leaf Rapids Development ırporation. Mr. Green, would you introduce the first one, please?

HONOURABLE SIDNEY GREEN, (Inkster): Yes, Mr. Chairman, I want to call Mr. Lief Hallgrimson 'ho is the chairman of the Manitoba Forestry Resources, Limited. I don't think he needs further roduction. He has been before Committee both as receiver and subsequently as chairman for, I nk, five years running, so without further ado I welcome Mr. Hallgrimson. The report has been ;tributed.

MR. CHAIRMAN: Would you proceed, Mr. Hallgrimson, please?

MR. LIEF HALLGRIMSON: Thank you, Mr. Chairman. Honourable members, Mr. Minister, I lieve the annual report has been distributed and this report includes the auditor's financial ıtements. I believe a covering letter from the Provincial Auditor, Mr. W. K. Ziprick, is to be found and a clear report from him.

In the front of the booklet I have prepared a report by myself as chairman of the board. I don't ow whether it is your wish that we go through this, but perhaps I could mention some of the ɟhlights.

The year under review was not a favourable one for our company. The indications in early lendar year 1976 for an upturn in demand for our products did not materialize, and in fact the mmer of 1976 saw a further erosion in demand. As a result of weak markets we were not able to ;rease selling prices in order to offset inflationcaused increases in our costs of production. The ;ult was that on sales of $38.1 million, we had an operating loss of $2.9 million, and after interest arges of $3.8 million, our cash loss for the year was $6.7 million. When depreciation of $4.9 million, ıon-cash item was deducted, the end result was a loss of $II.7 million.

To be more specific in connection with the reference made in the preceding paragraph to our lling prices and costs, over the last three years, the weighted average of our paper selling prices ;reased by 5.7 percent, and lumber selling prices increased by 12.5 percent. These increases have ıt been the result of any actual increase in selling prices, but rather have been the effect of our ccess in increasing our penetration of market areas where there are higher selling prices.

The modest increases in the price of our products has fallen far short of offsetting the increased ısts of production due to inflation. Despite rigorous cost cutting in all areas of our operations, we ıve experienced cost increases of 59.2 percent for paper and 29.4 percent for lumber over the same ıriod of time.

We are hopeful that economic conditions will improve both in Canada and the United States so as bring about an increase in the demand for our products, which would enable us to increase our ices to offset these cost increases. Present indications are that this is beginning to take place in the ıited States which, combined with a favourable exchange rate, has improved our position in that arket over the last few months.

As our industry has historically been cyclical, on a profit and loss basis, with each cycle taking a ımber of years to complete, it would seem appropriate to provide a summary at this time of the sults from operations covering our three years of existence. Although we have not been through a ımplete cycle, it does present a more clear picture of our results from operations than would a view of only one year in isolation.

In brief, over the past three years we have generated cash profits of $9.8 million before interest ;pense and depreciation on sales of $122 million. After net interest expense of $8.7 million, we were ft with cash profits of $1.2 million to apply against depreciation and start-up costs.

To turn back once more to our current year, the following is a brief report on each of our operating visions with, where applicable, 1975 comparative figures in brackets.

Pulp and paper division — gross sales in this division were $31.2 million, compared to $33.1 illion last year, and production of 108,000 tons compared to 112,000 tons last year. During the ıurse of the year it was necessary to take fourteen days downtime due to weak markets, and eight oduction days were lost due to an illegal strike for a total lost production of 8,000 tons. The only ajor change in this division during the year was that, in order to avoid taking additional downtime ıe to weak paper markets, we commenced producing baled, unbleached pulp. I am pleased to port that our pulp has gained acceptance and we are making a penetration into the pulp market.

The lumber division — gross sales were $6.9 million, compared to $5.2 million last year, and oduction was 46 million board feet, compared to 41 million board feet the year before. Although oduction capacity is 75 million board feet, as selling prices were below the costs of production, oduction was limited to the level at which we sustain the lowest cash loss.

Machine shop — sales rose slightly to $585,000, compared to $527,000 the year before, with an attendant slight reduction in the loss to $292,000, compared to $312,000.00. As I reported last yea most of the work done was in-house, it is difficult to reduce to dollars and cents the true valu having these facilities on site.

Fence post project — with selling prices of fence posts on average being below inven replacement cost, this facility has remained inactive and will remain so until there is an improven in this market.

Average employment during the year under review dropped because of decreased w harvesting. This is a temporary situation which will cease as markets improve and we returi production at full capacity. Thus employment, on average during 1976 dropped to 950 from 1,10C year before, with gross payroll costs of $16.5 million compared to $17.5 million the year befo

A total of 302,000 cords compared to 363,000 cords the year before of wood were harvested delivered to the plant site. Due to the lower than budgeted production in both the Lumber Divis and Pulp and Paper Division, we have a surplus inventory of logs on hand. This over-inveni position in logs is being corrected by a reduced cutting force and by a certain amount of downtim our woodlands operations. Despite our loss position for the year under review, we continue(follow our policy of making a grant in lieu of taxes to the Town of The Pas to the full extent of what tax liability would be if there was no agreement, which sharply reduces our tax liability. During year 1976 we paid property and business tax and a grant in lieu of taxes to the Town of The Pas in amount of $840,000; property and fixed business taxes which rose sharply from $353,000 in 197: $841,000 in 1975, appear to have stabilized.

Capital expenditures during the year were slightly in excess of $4 million. The major items wei Beloit couch roll costing $150,000, expenditures on a power boiler of $1.6 million, logging roa $579,000, and mobile equipment for wood harvesting, $679,000.00.

We do not anticipate that the next year will produce a dramatic turn around in our markets. We however, products, expect a slow but steady improvement in demand for our particularly in United States, with the result being a steady improvement of our financial picture.

We continue to believe, as I stated last year, that the long-term outlook for our compan) reasonably favourable. The two factors of projected world-wide shortages of wood fibre and the h capital costs of constructing new mills should both work in our favour to enable the company provide a modest return on equity. And that completes the written report. I would be pleased answer any questions that you may have.

MR. CHAIRMAN: Are there any questions? Mr. McGill.

MR. McGILL: Mr. Chairman, it was about a year ago that we have had the report from I Hallgrimson of the previous year's operations — I think it was May 20th — and at a that time, t question was asked: If, after having completed eight months of the year which we are now examinii Mr. Hallgrimson could give us some indications of what he expected the operating results to b(think, Mr. Chairman, he was fairly confident at that time that you would have a year that wo compare with the previous year in which you had experienced a reasonable cash operating profit. I Hallgrimson, what happened in the last four or five months of the year to turn it around so decide(from the rather confident position you had at that time; that you anticipated a firming up of the wo markets for pulp and paper, I believe, at that time, and obviously that didn't occur. We discussed t problems relating to inflation and its effect upon your operating costs, and I believe then we ha(little debate on that matter with Mr. Green.

MR. GREEN: Can we do it again?

MR. McGILL: Well, I was wondering if we needed to replay that. But one other factor has be introduced and that is a decline in the value of the Canadian dollar in terms of U.S. dollars. Th happened, I think, in the last three or four months. That probably improved your position relative North American markets, particularly to the U.S. market.

MR. HALLGRIMSON: That wouldn't be for this statement.

MR. McGILL: No, but getting back to my original question, could you just give us some idea what happened during the period from May until September 30th to cause what you expected to b(reasonably good year into a rather poor year.

MR. HALLGRIMSON: I don't recall, Mr. McGill, the exact statement but I'm not questioning tl fact that I made it. I do think that the reason would be that the market continued to deteriorat Obviously, at the time, I was of the view that we had reached the bottom but there is no question th in the last four or five months our deficit position from operations continued to deteriorate and didı bottom out until after the end of our fiscal year.

MR. McGILL: Mr. Chairman, well, it was in connection with some questions by Mr. Craik and I asked you what you would consider to be, having had eight month's experience into the new yea would you have some idea of the kind of result you might achieve. And you said, "The overa situation is pretty well the same as last year. The end result, I would say, I wouldn't expect — if you'ı wanting a prediction for the final outcome this year, I would expect that our financial results would t very similar to last year."

MR. HALLGRIMSON: I guess I'm not a very good predictor. These things are not always easy to ͽsee and as I stated previously, the situation continued to deteriorate and didn't bottom out, in my w, until after the end of our fiscal year.

MR. McGILL: Of the 108,000 tons produced during the year, how much of that would be sold in the nestic market and how much in the United States? Have you a rough idea?

MR. CHAIRMAN: Mr. Green.

MR. GREEN: I wonder, Mr. Chairman, if Mr. McGill will permit me to go back on the previous tement and if we look at the previous year, 1975-76, under the figure "Depreciation" — if you look comparable statements it appears that the net loss for the year was $44,014 in 1975 and $11,714 in '76 but the figures differ by depreciation amount, not by any operational difference. Or am I orrect in that? If you look at the statement 1975-76 —(Interjection)— I'm on Statement 2, Gross les, Statement of Operations and Operating Deficits, Statement 2.

If we go down the figures, we see that the figures are comparable until we get to the Depreciation ure. Am I reading it wrongly?

MR. McGILL: Yes, I was asking Mr. Hallgrimson if he could give us some idea of the total duction of 108,000 tons, how much was sold in the American market and how much in our mestic market?

MR. HALLGRIMSON: Yes, I can give those figures, Mr. McGill. Sixty-nine thousand tons were d in Canada, and that amounts to 66 percent; 22,000 in the U.S.' which amounts to 21 percent; and ,000 was sold off-shore, being 12.5 percent.

MR. McGILL: Then the major percentage went to the domestic market?

MR. HALLGRIMSON: Yes, as a matter of fact the percentage that we sold in the market went from .9 percent in 1975 to 66 percent in 1976.

MR. McGILL: Mr. Chairman, I would like to ask Mr. Hallgrimson, what has been the operating perience of his principal competitors in the domestic market, the other companies that are pplying this market? Have their results been in any way similar to the results that you have hieved? Did they experience a decline in their operating position in this current year, as you did?

MR. HALLGRIMSON: Well, I can say this, Mr. McGill, there are two mills out on the west coast that e in the same business as we are, producing unbleached kraft paper, one at Kitimat which is owned Finnish interests . . . so I have no idea about their financial statements. I do know that they have ken considerable down time. The other one is at Prince George which is jointly owned by Reed per and Canadian Forest Industries and again, I have never seen financial statements covering at particular company but they have also taken down time. These two mills are really dedicated to f-shore markets which, I can assure you, are not that good and have deteriorated probably more an our Canadian market has. So I wouldn't expect that their results would be any better.

Now, in eastern Canada there are two or three older mills that are owned by large integrated mpanies. Domtar has a kraft paper mill at East Angus in Quebec and you may have read, about two eeks ago they announced that they were closing that mill this fall. The other one is owned by onsolidated Bathurst and as you know they are a large integrated company. I haven't seen any nancial information on just their kraft operations.

I do have something here which comes from the Domtar report which I think indicates that we are t alone in our difficulties. If you will just permit me here to find it. It may explain my inability to be a od prognosticator because it appears that they too thought that last year was going to be better an it was. I'll just quote in parts here. It says, "The outlook for 1976, as expressed in the 1975 Annual eport, indicated that despite adverse economic trends which would particularly affect the mpany's pulp and paper operations, a reasonable overall profit performance could be expected. uring the year however it became apparent that these expectations would not be realized due to all gnificant cost factors increasing at a faster rate than those in the United States and the intensity of mpetition from that country."

And further on they say, "The pulp and paper products group experienced an operating loss for e first time in the company's history." So that's Domtar.

So I can't really say anything further than that. As I say, the mills that are comparable to us in the nse that they are larger mills, newer mills, are the two mills at the coast that essentially sell off-ore. The mills down east are older mills. In fact the mill that I referred to closing was built before the rn of the century.

MR. McGILL: Did I understand you to say, Mr. Hallgrimson, that the two mills on the West Coast e more modern than the ManFor plant at The Pas?

MR. HALLGRIMSON: No, I did not say that.

MR. McGILL: They are newer?

MR. HALLGRIMSON: Well, in the sense that they're older than our mill. Kitimat is probably within year or two of us. I don't know about Prince George, but it's not like the eastern mills.

MR. McGILL: The reason I was asking about your competitors and their operating results, I would ssume that this would be about the only way you could measure your operating efficiency in a year with declining markets, comparing your results with those of the people in the same business v are meeting presumably the same difficulties in terms of increasing operating costs in a rather : general market for your products.

You mentioned in your report and described certain capital expenditures that were made year. Do you foresee any major capital requirements in the coming year in order to maintain the sa operating efficiency that you have now?

MR. HALLGRIMSON: No. Nothing out of normal except that we will be doing some work build a retaining pond to lower the toxicity of our effluent. This is something which is brought about by requirements of Environment Canada, and the provincial authorities, and we will be starting on t during the forthcoming year or this year, and it will take two or three years to complete. But that's only major item other than the normal roads and equipment that's necessary.

MR. McGILL: Has there been any change in your estimates of the ability of the forest areas t you now have at your disposal to maintain the kind of production which you have maintained in past few years? It was I think a statement made some time ago that there was a capacity there annual cropping that would achieve almost double the capacity or supply the raw material for dou the capacity of your plant. Is that essentially true today?

MR. HALLGRIMSON: Yes, I think that's true. As you probably are aware we have a very large a which we call our specified area which was reserved for this company comprising approximat 40,000 square miles. It was determined by the Department of Renewable Resources that the ann allowable cut in this area would be around 900,000 cords which, as you say, would certainly sust an operation larger than what we have.

MR. McGILL: What about your ability in the U.S. market in the coming year. Do you think yc sales will be a greater proportion of your total sales volume as a result of the decline in the Canadi dollar? Have you had any indication up to this point that the relative decline of the Canadian dolla terms of U.S. dollars gives you a better ability to meet the competition in the United States?

MR. HALLGRIMSON: Well, the fact that we do get a premium on the dollars that we earn of cour goes without saying that this improves our situation down there. We would hope that we co dispose of more product down there, but more important I think, we would prefer to see a higher pri for our product.

MR. McGILL: But you haven't got any indication of a greater interest from the U.S. buyers a result of them being able to buy for 95¢ what they used to be able to buy for $1.00.

MR. HALLGRIMSON: No, I'm afraid Mr. McGill, we've been keeping the 5 percent ourselves. V sell in American dollars so that. . .

MR. McGILL: Oh, I see you don't provide them with that advantage.

MR. HALLGRIMSON: No. It's a very large market and we're a very small part of it so we do exactly set the price so we take what we can get, and the 5 percent premium on the money something that has inured to our benefit.

MR. McGILL: As compared with the possibility of greater sales, you prefer to take the premium the American dollars which you accumulate?

MR. HALLGRIMSON: Yes. We don't think that we would have made any more sales by giving th advantage to them. . . to the purchaser.

MR. McGILL: Are your sales made through an office in the United States?

MR. HALLGRIMSON: Yes. We have agents in the States, Price and Pearce, who are located New York and are our agents in the U.S. market.

MR. McGILL: Thank you.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Hallgrimson, I have a rather unrelated question. I read a story in the Winnip Free Press which, relying on this report or at least appearing to rely on this report, calculated t amount of money that was overcharged or could personally have gone to Mr. Kasser in connectic with your original transaction, and I must confess that I have difficulty understanding the articl You've been on that scene from the very beginning or pretty close to the beginning when t receivership was started. Did you read the article?

MR. HALLGRIMSON: Yes I did.

MR. GREEN: Did you understand it or did you find any discrepancy with what had previously bee determined by the Commission?

MR. HALLGRIMSON: No, I must admit that I frankly had difficulty in following what was beir said.

MR. GREEN: So my inability to make head or tail of it was at least equal to your own?

MR. HALLGRIMSON: Yes.

MR. CHAIRMAN: Are there any further questions? Mr. Banman.

MR. BANMAN: Mr. Chairman, in the statement there's mention made that there was a surplus log inventory on hand for the lumber division and the pulp and paper division. I'm wondering if M llgrimson could tell us roughly what kind of an inventory we're talking about. Is it a substantial 'entory?

MR. HALLGRIMSON: I was trying to find something here in my material, and I just can't seem to t my hands on it. But we have under normal conditions a substantial inventory of logs. I can only ;all the monetary value of them. We have at the present time about $9 million in timber which is out the bush and in the yard. What happened was this, as I stated in my report, the mill was shut down · two weeks, we had an illegal walk8out for nine days. In markets of this nature, we run lighter ›ight papers that we perhaps wouldn't run under better conditions because our productivity isn't as ȷh. In a nutshell really what I'm saying is that the wood that we consume is less than what we ticipated. Meanwhile, the woodlands division has geared itself up to cut on the basis of what the ojections had been when the budgets were set. So, we did find ourselves in this position. We took ›wn time in the woodlands to bring this down and right at the present time I think we are pretty well what we think are our normal levels.

MR. BANMAN: How many cords of wood would you require for an operation let's say like last ar?

MR. HALLGRIMSON: We cut 300,000 cords of wood.

MR. BANMAN: Would you have $9 million. . . Would that be about a year's supply that you would .ve on hand right now?

MR. HALLGRIMSON: No, we don't have quite a year's supply on hand. I think our normal supply is ›out 225,000 cords.

MR. BANMAN: A week ago we had the report from the Moose Lake Loggers who are very ›timistic they are going to have a good year. Is there any problems as far as the amount they will be owed to cut? Your statement mentions that you have had a certain amount of down time and been rced to reduce your cutting. Will that affect them at all?

MR. HALLGRIMSON: Well, this of course depends on what in fact transpires. We, at the beginning the year, make our best estimates as to what we feel we are going to need, but this doesn't mean at something couldn't happen during the year. If markets deteriorated, of course, and we had to ıut down the mill, we might not require the wood that we had anticipated at the beginning of the ›ar. Everything else being equal, I would say that there shouldn't be any problem. We're looking to oose Lake for more wood than we have in the past. The logs from there are of a little larger size than ey are from some of the other areas, we like them, because we have some difficulty in getting saw gs, and the percentage of saw logs for Moose Lake is higher than it is from other areas so that I ɔuld hope that Moose Lake is going to operate on a continuous basis and I trust that there won't be ıy problems.

MR. BANMAN: What percent of capacity were you operating at last year roughly?

MR. HALLGRIMSON: We were operating at full capacity if you're talking about the pulp and paper ill. When it's running, you try and run it at full capacity, you can't run it at half speed. Except for the ne that it was closed down and not operating, then I would say that we were running at full capacity.

MR. BANMAN: The average as far as the amount that you did produce every day, what are you nning? Are you running at. . . I think you mentioned last year, you could run as high as 400 ton a ıy. Is that right?

MR. HALLGRIMSON: Certainly it runs as high as 400. In some cases, it runs higher. It depends on e paper, Mr. Banman, that you're running. If you're running heavier weight papers, then you usually ›t a higher volume out of the machine. But the machine doesn't consistently run at a rate. Some ıys, the last few days it's been producing over 400 tons a day, tomorrow it may be 300 tons a day, ›pending you know, if something goes wrong. But on the average, it was 350 last year.

MR. BANMAN: I'm just trying to relate the percentage figure . You mentioned the total tonnage at was sold last year was 109,000. What percentage of downtime did you have last year?

MR. HALLGRIMSON: On Page 3, we took 14 days of downtime due to weak markets, and we lost ght production days due to this walkout which totals 22 days, and we have stated in there that we st a total of estimated production I guess of 8,000 tons. What we're saying is that had we been ınning during that time, we would have produced 116,000.

MR. BANMAN: So all systems being "go" and the plant operating properly without any snags, that ould have been about maximum production that you would be able to get out of it?

MR. HALLGRIMSON: Well I hesitate to say that that's completely correct, because in better arkets you can schedule a machine better, and I would say that in 1974 I think we produced about ?5,000 tons so that this 116,000 you know, that it's possible maybe to get another 7,000 or 8,000 tons ɹt of the machine. But, that's probably the top.

MR. BANMAN: I appreciate that the capacity and of course the price reflects quite significantly on ıe statement, because your total fixed costs would not be very much more even if you were able to ;hedule the operations, I would imagine your only different costs would be maybe additional fuel ›r some of the machinery, but the other fixed costs such as labour and that, would be very close to hat they are now. Would that be right?

MR. HALLGRIMSON: Well of course, the variable costs, you have wood cost and chemicals a stuff that are incurred that goes into the product, but like you say the labout costs and that are fi: so that your unit cost would go down if you produced more.

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I apologize if some of the questions I ask have been touched I was late arriving, but I was interested in knowing from Mr. Hallgrimson, this issue of the walkout t took place last year, the illegal walkout. What does this represent in the way of the prospect of lab relations at the plant? Does it indicate that there is a continuing degree of instability in lab relations or has that problem all been solved and everything is wrapped up and everyone's hap again?

MR. HALLGRIMSON: Well, we did in fact have the walkout. Some of these things are difficul explain. I can't really answer them, they're spontaneous reactions. This particular walkout, haven't had a recurrence of it so that in that respect I can say that we're certainly not faced w repeated walk-outs or anything. This hasn't taken place since this occurrence took place.

MR. AXWORTHY: Mr. Chairman, I'm wondering, has the issue been resolved to the satisfactior those parties and the grievances that caused this?

MR. HALLGRIMSON: Well, as a matter of fact we filed a grievance under the collective agreeme We have come to an agreement with the IWA, one of the unions, but we haven't come to an agreem with the other one, the CPU.

MR. AXWORTHY: So that there's still an outstanding issue related to the second union that y mentioned.

MR. HALLGRIMSON: That's correct, yes.

MR. AXWORTHY: Is that under negotiation at the present time or are you. . .

MR. HALLGRIMSON: Well, an arbitration board has been named and I don't think it's been hea by the arbitration board.

MR. AXWORTHY: I see. So, Mr. Chairman, the question I would be asking is that there is stil degree of uncertainty about the prospect for labour arrangements in the plant over the next year so, because of these still some outstanding grievances being raised, and if that is the case I wou follow that by asking what does that represent in the way of expected performance in the plant terms of your attempts to keep costs in line. Is this going to mean an exceptional cost raise in labo in the labour factor, or is it. . . What is your projection at this stage in terms of that major factor your own activity?

MR. HALLGRIMSON: Well, I don't think that I can accept what you say. I don't think I'd make su a pessimistic analysis of the situation. If from time to time these disputes arise, I've not been ma aware of any situation whereby this is affecting the production costs or anything as you sugge:

MR. AXWORTHY: Mr. Chairman, I'm a little confused because you stated earlier that the eigh day shut-down was a major factor in your poor performance last year in that it did play a major role it. Obviously the whole question of labour relations in a plant of that size is a major factor as it is in a company. It is a major factor whether they can produce a profit at the end of the year or not.

MR. HALLGRIMSON: I don't think I mentioned it in that light, Mr. Axworthy, I was just accountir for our production and pointing out that we did lose eight days production due to this strike, which a fact. This is how long the walk-out lasted and I am simply accounting for that. I stated that o production was 108,000 tons and that had we been producing for the 14 days down-time that we too due to weak markets and also these eight other production days that were lost, we would ha produced another 8,000 tons, that's all. I'm not by that suggesting that we have any great problem The Pas arising out of this which is affecting our production.

MR. AXWORTHY: Mr. Chairman, I'm wondering how would you compare the productivity of th work force in that plant compared to other pulp and paper operations. Is it on a par, below, above? there any way of measuring it?

MR. HALLGRIMSON: You say the productivity?

MR. AXWORTHY: Productivity per worker, measurement of the actual productivity that you' getting out of that work force compared let's say with the industry average, or the industry standard

MR. HALLGRIMSON: Well, I've never seen figures that would give me confidence to answer th particular question. I could only make a general comment and that is, which has been stated on mar occasions, our mill is a small mill in the sense that it produces between 350 and 400 tons a day. Ther aren't very many new mills that are built of that size. They're twice the size and obviously if we were t compare the productivity in this mill with somebody who was producing 800 or 900 tons per day, pe man, the productivity per man would be higher in our mill than it would be in a mill of that kinc

MR. AXWORTHY: Well, Mr. Chairman, I think it's an interesting point. What you're suggestin then is just that the sheer scale and size of the particular ManFor operation really is going to be constant detriment in its ability to move into a plus position on your balance sheet, is that right? Tha compared to your competitors, that you're just simply not going to be able to get the productivit because of the capital size, and that I guess the consequence of that is that you either would maintai

›urself constantly in that uncompetitive position as far as productivity is concerned or that you ake major new investments to bring it up to scale. Is that a correct conclusion?

MR. HALLGRIMSON: Well, I'm not quite sure that I can recall exactly what you stated in your. . .

MR. AXWORTHY: Do you want me to try again?

MR. HALLGRIMSON: Maybe if you would, Sir.

MR. AXWORTHY: The point I'm trying to make, and it really is coming back to the question which I ink is our primary function in examining corporations like this when there is a major deficit position examine how we get out of it. You know, what needs to be done in order to realize a better balance? nd I'm surmising from your remarks that the major limit to the ManFor operation is that in its original ›ncept and its size, it just is not able any longer to compete with those who have a much more ficient higher productivity rate because of the scale of operation, and that that will be a constant ›bilitating factor. Is that a correct conclusion?

MR. HALLGRIMSON: Well, I think you're making some sweeping conclusions there. I don't think ıat . . . it's undoubtedly . . . nobody can deny that the mill would be more viable if we were twice the ze and if we were able to sell the product, because we would have a lower cost as far as our fixed ›sts are concerned. The unit costs would be lower, and that's quite obvious. But to suggest that we ın't operate the way we are, I don't think that necessarily follows. The fact that we could be more able if we were larger doesn't mean that we can't operate the way we are.

MR. AXWORTHY: Mr. Chairman, I'm not questioning the fact that you can't operate the way you re. What I am interested in is, what needs to be done to eliminate the deficit positions that the plant ıns into so that there wouldn't be this kind of loss. As I gathered from your earlier remarks to other uestions and responses to them, that you need an exceptional market in order to realize a profit, that ›u need a combination of high demand, high prices, etc. I would be interested in knowing how often ıose particularly fortuitous combination of circumstances come about, and perhaps would like to sk you, what is a more realistic appraisal as what happens when you are in a tough market. Can lanFor compete on the basis of keeping its cost and productivity in relation to other major pulp and aper operations, and therefore be able to be a tough competitor in this market?

MR. HALLGRIMSON: Well, I really can't say any more than what I said before, and that is that bviously we would be more viable is we were able to spread our costs over a higher productive utput. It's not a very easy thing to answer, because as I stated in other parts of my report, an xpansion now is prohibitive, I think to the point where there are very few new mills being built. There ; a new mill being built, and I don't think they've commenced production, in Quebec, at St. Félicien, nd it's a pulp mill and it's going to cost $250 million.

Now, I think in what you've been talking about, if we were to expand in order to get the advantage f spreading our unit costs, it might be far outweighed by what capital investment is necessary in rder to bring that about. I think that as far as ManFor is concerned, that we have to be prepared at mes during the cycle to experience some losses. Hopefully, they will be minimized and they will ıecome less or smaller as we go on and I feel that that will be the case because as the cost of these ıills goes up, there's going to be less and less of them and the ones that are in existence are going to ıecome more viable because of that. What traditionally has happened in the past is that more mills ıave come onstream and weakened the market and made the situation more untenable than it would ıave been had they not been built.

MR. AXWORTHY: Mr. Chairman, I wonder if you could elaborate on this cycle that we are talking .bout. I'm not much experienced with the pulp and paper business — you're talking about the cycle – is this something that can be easily plotted and graphed to show that it in fact works this way, or are ve, as so many other parts of the economic sector, in almost totally different circumstances that no ›ne can predict that what held before is going to hold in the future?

MR. HALLGRIMSON: I think you can safely say that the demand for pulp and paper is directly lependent on economic conditions, and if economic conditions are good, then the demand for these ›roducts is similarly good. Once there is a down-turn in the economy, the demand in this area goes lown too. I say cyclical because it's as cyclical as our economies. Now we had, if you go back a few ears, this company came into existence in 1973 I guess, and our first year of operation was 1973-74 ınd we experienced perhaps a period of prosperity that hadn't been experienced for many many ears, and suddenly come the fall of 1974, it just dropped right off. This was coexistent with the fall-›ff in the economies of the United States, Europe and Japan. All of them went down at the same time.

The pulp and paper market is a world market, and so we had all these economies going down and t was a very severe down-turn, and it hasn't been worked out yet. For instance in Europe' tbe Scandinavian countries are the large producers of forest products — there's a surplus in storage — here's about two and a half million tons of pulp. It's going to take some time to work this out and then ɟet back to normal conditions.

So this is the way it's been, and I think the answer to your question, Mr. Axworthy is that it's tied to he economies and they being cyclical, the industry is. . .

MR. AXWORTHY: Mr. Chairman, I wonder if I could, just to pursue that a couple of steps further that if. . .. I gather that — I don't want to read between the lines or misinterpret what you're sayinç but you're saying that we are still in a little bit of a slump in the pulp and paper industry, and that going to take a while to start moving out of it because there is large inventories and lots of otl people who are also interested in digging their way out. Now, if that's taken as a given, if we're iı that kind of period, how much is the ManFor operation affected by things like increased energy c and hydro cost and so on in terms of its own factors of production? Does that again drag down th ability to recover in this market? Are we any better off or worse off than other pulp and pa operations? And I was thinking particularly in the transportation area, where we've got long lines transportation to cope with, how much are we going to be affected by those what seem to be alm inevitable increased cost of energy?

MR. HALLGRIMSON: Well, I think I can only refer back to my report, which I think the point th was trying to make was that we were caught in a cross-price squeeze. We haven't really benefit from any increase in the selling price of our output since 1974; in fact, it's gone backwards instead forwards. There was a slight improvement, I think, this year we pointed out, but this was mair because we were able to penetrate more into the Canadian market where the price was a little high

But at the same time, our prices have escalated horrendously. You mention oil, I can recall whe first became involved in this back in 1971, the price of Bunker C delivered to The Pas was ten cent gallon, and we use 12 million gallons of Bunker C, which means that our bill for Bunker C would $1.2 million. The price of Bunker C today is 35 cents a gallon, which means that our bill is around million. So there's an increase of about $2.8 million that we certainly haven't been able to pass dow and can account for some of the deficit that I have to stand before you and try to defend. I can gi you some others here which I think are. . . We are really caught in a cost-price squeeze. We cann pass on these things. Now hopefully the market will improve and these items can be recoverec

MR. AXWORTHY: Mr. Hallgrimson, I'm just wondering, one question that just really came to mi that you may have answered, but I'd like to know, what kind of price increase are we talking about order to allow ManFor to turn the corner, at least to regain some equilibrium. To fight its way out this cost-price squeeze, what are we talking about in terms of the prices as it now stands, as to wh you think you need in that international market to break out of it?

MR. HALLGRIMSON: Do you mean to cover our interest and depreciation? It's difficult to pu precise figure on that because we have the two operations. We have the lumber operation and tl pulp and paper. . I would say 40 to $50 a ton.

MR. AXWORTHY: You would need an additional $40 to $50 a ton price . . . .

MR. HALLGRIMSON: Yes, at least that.

MR. AXWORTHY: At least that in order to start breaking even. This may be a question you ca answer, but what's the likelihood of that happening in the near future?

MR. HALLGRIMSON: At the opening of these proceedings, Mr. McGill quoted to me somethin said last year and I hesitate to make further predictions, having been discredited in that manner. Bu really can't say. All I can say is that we appear to have bottomed out, and we bottomed out towards tl last of last year on the point that we are considering. Our position this year so far, if it doesı deteriorate, should mean that we will perhaps be . . . —(Interjection)— Don't predict, eh? Oka

MR. AXWORTHY: Well, Mr. Chairman, we're not asking you to predict — maybe just to get a fix c it. Perhaps you could tell me — in those good years you were talking about, those halcyon days 1973-74 — what would be the price movement from one year to the next in these products upward

MR. HALLGRIMSON: During 1974 the price . . . ?

MR. AXWORTHY: What would be the price change between one year . . .

MR. HALLGRIMSON: Oh, the price . . . We went up, I would say, and this is just off the top of n head, but I would think the price increased in 1974 by about $60 to $70.00.

MR. AXWORTHY: So that the price thing you're talking about is conceivable under the mark conditions.

MR. HALLGRIMSON: When the market conditions are right, that is quite feasible. And I think th the recovery can take place quite quickly, when it does take place. Because the downfall was ve sudden; we went from feast to famine in a matter of a couple of months.

MR. AXWORTHY: Mr. Chairman, I would like, if I could, to come back to a question that ha always intrigued me about this project and others up north, because I think they are generall designed to not only provide for their overall economic activity but have a specific purpose c providing employment in northern areas, which I think that the coany seems to have been able to d over the last couple of years. Can you just give me some record of the numbers of people and th kinds of e — by loyment that I mean full-time employees, contract employees, cutters and so on th you would have in the last year? It may be in the report.

MR. HALLGRIMSON: Yes, it is in the report, Mr. Axworthy, but not in the detail that I think you ar referring to, and I don't think I can give it to you right now.

MR. AXWORTHY: Mr. Chairman, does Mr. Hallgrimson have any idea of what would be the kind c ıual wage package that they would put into that northern economy?

MR. HALLGRIMSON: Well, I'll refer you to Page 4 of my report, and I'll just read the relevant agraph again. "Average employment during the year under review dropped because of decreased ɔd harvesting. This is a temporary situation which will cease as markets and improve and we ɹrn to production at full capacity. Thus eloyment on an average during 1976 dropped to 950 from ɔ0 with gross payroll costs of $16-½ million."

MR. AXWORTHY: Taking that sort of again, in fact I come back to the point that Mr. Banman ;ed where we had examined Moose Lake Loggers and, what was the other one? Cross . . . atever it is. When we have been talking to some of the companies which are your suppliers, or do ›ply you with a certain amount of wood products, I recall very vividly at that time, the president of t company said that even though they had a loss this year, they hope to make it up next year ;ause they were going to get ManFor to pay an awful lot more for their logs and they were ʒotiating. I'm beginning to get a sense that there's a little bit of a house of mirrors — but here you ꜝ trying to cut back in your costs and everything else and these other coanies which are dependent on your suppliers are hoping to recoup their losses by hitting you for higher prices. It is a bit of ɿundrum I guess in a caustic sense, and I am wondering — you are a really at the centre of it though ;ause you are the big employer and entrepreneur in that area.

MR. HALLGRIMSON: No, I think Mr. Axworthy, that it is a very healthy situation. Both companies ꜝ dealing at arm's length and when we get down to bargaining, we naturally want to get the wood as eaply as possible and they want to get as much as they can. I don't think we have arrived at a price t but negotiations are pending, and I think that's the way it should be.

MR. AXWORTHY: Mr. Chairman, I am not arguing for any other case, I am just suggesting that ɜre is a certain . . . when you see different companies come before, each with a different rception of how they are going to break out of their own particular slump, then it provides one with uess, a degree of weariness of the human condition, nothing else. That's all, Mr. Chairman.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, Mr. Hallgrimson mentioned a new mill under construction in Quebec · some $220 million. What is the daily capacity of that mill, Mr. Hallgrimson?

MR. HALLGRIMSON: I think I said $250 million. That is a pulp mill and I think it's some place in the 0 . . .

MR. McGILL: About double the capacity of the . . . In the year under review, it was pointed out ɜt there were 14 days of downtime. How many days of downtime have you had in this current year date?

MR. HALLGRIMSON: We have had none.

MR. McGILL: None. I wanted to get back just for a moment to the mechanism of the pricing of your oduct per ton. I assume that your sales agents quote your price per ton in the U.S. market in U.S. ıllars. What would that be as of today's date, your price per ton in the U.S. market?

MR. HALLGRIMSON: Well, it varies according to the grades. Our price would be on the average, obably from 250 to 275, depending on the grade of the paper.

MR. McGILL: 250-275 per ton. What is the mechanism by which you arrive at this price? How any prices changes would you have in a year or in a month? I am completely ignorant of the way in ıich these prices are established or how they change.

MR. HALLGRIMSON: It is not like the lumber market or anything like that, it doesn't change from ıy to day; it's fairly stable for some time. It could be for months, it might be for a whole year or more. ; I stated previously, we are not a large factor in the market. I just forget the exact consumption of ıbleached kraft paper in the United States, but I can assure you that we in no way set the market. We ıve to follow what the companies down there do. To a great extent, it is dependent on what prices ey are charging for their paper because we can't get more for our paper than what they are ıarging.

MR. McGILL: Do all Canadian suppliers to your knowledge, rely upon the U.S. market for ;tablishing the price of the product that they would export?

MR. HALLGRIMSON: Well, to the best of my knowledge in this particular area, we are the only ‹porters.

MR. McGILL: Does Bathurst not export to the U.S. market?

MR. HALLGRIMSON: Not in these grades.

MR. McGILL: So you are unique in the quality of the product that you supply to the U.S. market?

MR. HALLGRIMSON: That's right. Our difficulty down there, Mr. McGill, is that they have lower ·oduction costs and are able to sell paper at lower prices, and appaently still make money. . . a lot f southern mills, large mills, that are in this field.

MR. McGILL: I think a year ago when we were discussing this we agreed that the rate of inflation in anada as compared with that in the United States was a factor that was affecting your competitive osition there and that there was indication that they were controlling their rate of inflation more ffectively than we in Canada were doing. But, Mr. Hallgrimson, did you not have some agreement in that position at the time?

MR. HALLGRIMSON: Well, I think it's indisputable their costs appear to be lower than ou This may not be all due to inflation; I think that the growth cycle is much shorter, the trees are clos together; they don't have as high costs to get at their wood, climatic conditions are better. So it is all from the inflationary — what we would refer to as in the inflationary aspect. There's no questi about that, that they can produce this type of paper — or anything else that they can produce in tl field — cheaper than we can. This has been stated by the heads of most of the leading companies Canada, and this is not confined to ManFor or Manitoba but the companies at the west coast ai eastern Canada faces the same problem.

MR. McGILL: Mr. Chairman, the fact is — which Mr. Hallgrimson describes as the faster grow cycle and other natural advantages which that area might have over our climatic and other problem have always existed and that we have not always been in the tough competitive position that we a now. So obviously, it must be due more to more recent events than those which have persistent existed for all time in terms of natural advantages.

I come back to the matter of the difference in the value of the dollar now in terms of the U.S. dolla In your report you say that — and I am quoting from Page 2 —"an increase in the demand for o products which will enable us to increase our prices to offset these cost increases. Prese indications are that this is beginning to take place in the United States, which, combined with favourable exchange rate, has improved our position in that market.". I don't quite understand ho the favourable exchange rate has improved your position in that market, since you are not offerir that favourable exchange rate to your customers. That is the mechanism by which variable inflatic rates around the world, as I understand them, are corrected. When we are in a period of inflation ar we're printing and distributing too many dollars, the value of those dollars decline in the internation market, and our ability then to continue to coete in the international markets depends upon ou taking advantage of the decline in the value of our dollar and to attract people who will buy ou products; they are attracted by the fact that they are able to achieve an advantage in terms of tł declining value of our currency. But you are using this as a premium and not passing it on to tł customers. How really do you see it as improving your position in that market?

MR. HALLGRIMSON: Well, sily because it iroves our mill net, Mr. McGill, and it is really the sam as if we were able to increase our price. As I have stated before, I really can't see what purpose would be handing this money over to the purchaser because he is buying from us. If you ar suggesting that our devalued currency, which in the exporting nation is always passed on to th buyer of the product, I would seriously question that because I think it simply makes the return bette for the exporter and places him in a better position.

MR. McGILL: Well, it has been my experience, Mr. Chairman, in the importation of products fror the United States, that our ability and our price to our customers change with the value of th Canadian dollar in terms of the U.S.

MR. HALLGRIMSON: The importing or exporting?

MR. McGILL: Well, whichever way we were iorting at that time.

MR. HALLGRIMSON: Well, the American supplier would charge you whatever the premium was

MR. McGILL: The premium was passed on.

MR. HALLGRIMSON: Yes. Well, you didn't get any premium as an importer — if it has the effect c raising the price of imports.

MR. McGILL: Well, we're getting into an argument here that really doesn't apply to this. But in an importations that — in my experience, the value of the dollar was reflected in my net cost of importin that material and the difference in the currency exchange was not taken by the supplier. In your case you are the supplier of a product and the man in the United States is importing it. You are maintainin a constant U.S. dollars price, so there is a difference there. I am suggesting that the value of th declining dollar in the international money markets is to equalize the difference in our inflationar rates, and if it is not passed on, then we are going to be farther and farther away from being able t compete in those markets in terms of . . .

MR. HALLGRIMSON: Maybe I am getting into a field of economics which I don't understand. All understand is that I have a company that is exporting paper to a country, we're selling in America dollars, and as far as I am concerned, when the value of the Canadian dollar — and I must say ever time that it goes down a point, I rejoice because it means that we are getting more for our product

MR. McGILL: But your customer doesn't rejoice.

MR. HALLGRIMSON: No, and I don't think it would make any difference, because as I state previously, if it was a market that we controlled in some way — we are just a very small pebble on the beach, and for us to pass that on to the American buyer, I just can't understand what would be acco it except just lished by him — to give it to whether that is contributing to further inflation or . . . I am sorry I don't understand — and maybe the wording isn't too good, but what I was trying to convey was, that through a favourable exchange rate, we were in effect getting a better price for our product

MR. McGILL: Well, I'll leave that question to Mr. Hallgrimson. I don't want to ask you to forecas ıat the future may bring. You have stated in the final paragraph of your report that a long-term tlook for your company is reasonably favourable. You've had eight months experience now and ɘre are only four to go. How has it been up to this stage?

MR. HALLGRIMSON: Well, Mr. McGill, you'll notice I mention the term "long term" — I'm not king about the ensuing years. I think the preceding paragraph says that we do not anticipate that ɘ next year will produce a dramatic turnaround in our market. We do, however, expect a slow but ɘady improvement in demand for our products particularly in the United States with the result ing a steady improvement of our financial picture. And what I'm really saying now is that as I see it w within my limited capabilities, there is slight improvement and I think our situation this year will a little better but nothing dramatic.

MR. McGILL: Do you have quarterly reports and do you produce an interim financial statement or st one?

MR. HALLGRIMSON: We we prepare monthly reports.

MR. McGILL: So you have reports up until the end of April, I would presume.

MR. HALLGRIMSON: We produce reports on a period basis of every four weeks, 13 reports in a ar year for our own internal and those reports indicate that we are doing better than we were last ar but nothing dramatic.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I would like to go back to the point that Mr. McGill is raising to see ıether I can distinguish between what he has been saying and what the chairman has been saying. I gather that you sell your product on one market, that's in the United States. You don't sell the oduct in Canada.

MR. HALLGRIMSON: No we sell in three markets.

MR. GREEN: Three markets.

HALLGRIMSON: We sell in Canada where approximately 60 percent of our product is disposed of ıd we sell in the United States and we sell in other foreign markets.

MR. GREEN: When you are selling it in Canada, are you selling it cheaper than what you are lling it on the United States market?

MR. HALLGRIMSON: No.

MR. GREEN: Well, I'm just trying to find out.

MR. HALLGRIMSON: In fact, the market price is higher in Canada.

MR. GREEN: So when you're selling in the United States, you're selling to a market and your lling it in American dollars.

MR. HALLGRIMSON: That's right.

MR. GREEN: They are not coming here and purchasing your product in Canadian dollars. You ave an agent there who is selling on their market.

MR. HALLGRIMSON: That's right.

MR. GREEN: And their market, you said, is not elastic. In other words, a reduction in your price ill not increase your sales.

MR. HALLGRIMSON: No, what we sell there is not a significant amount in their overall market. I ight also add that in other foreign markets we also sell in United States dollars. And I might also add ıat when it went the other way, we had to accept less.

MR. GREEN: Exactly. When you sold in the American market, and that was not long ago, a year go, there was a premium on the Canadian dollar, the United States paid you in United States dollars.

MR. HALLGRIMSON: Yes and we turned it into Canadian dollars which was less.

MR. GREEN: That's right. So your sales in the United States are in American dollars.

MR. HALLGRIMSON: That's right.

MR. GREEN: And selling it in the United States for Canadian dollars would merely result in them aying you that amount of money in Canadian dollars that they pay you in American dollars. I mean, would be the same price but it would be in Canadian dollars. In other words, if the price is $265 a ton ıd you were selling it in Canadian dollars they would have to pay you $285 a ton because that is the rice of the product.

MR. HALLGRIMSON: No. I don't know that I follow that.

MR. GREEN: Well, let me repeat it. The price that you are selling in the United States, let us ssume that it is $265 a ton.

MR. HALLGRIMSON: U.S.?

MR. GREEN: U.S. That's right. If it's $265 U.S. and you wanted them to pay you Canadian, they ould take the value of $265 U.S., translate it to Canadian dollars and pay you that figure.

MR. HALLGRIMSON: Yes, but they would be paying less for the product because it wouldn't cost ıem $265 U.S. to buy $265 Canadian.

MR. GREEN: What I'm saying that if you want it to be paid in Canadian dollars, they would take 265 merican dollars, they'd go to the bank and say give me Canadian dollars. The bank would give them 75 Canadian dollars and they'd give that to you. Which is exactly what you are doing now. —

(Interjection)— He's charging them 265 American dollars. Now Mr. Hallgrimson says to them, "I w you to pay me Canadian dollars". Let's assume they still wanted to buy. So they'd walk into the ba and they'd give the bank 265 American dollars, the bank would give them 275 Canadian which is w you can get and they would give you the 275 which is what you're getting now. Because if you getting 265 American dollars and you transfer it into Canadian it's $275.00.

MR. HALLGRIMSON: But essentially it's determined by what currency your sale is made ir

MR. GREEN: And it's made in American dollars.

MR. HALLGRIMSON: If it's made in American dollars, as I pointed out when the premium went t other way, we ended up with less money in Canadian and now it's the other way around. But t purchaser of that in the States, he's still paying the same price.

MR. GREEN: But what Mr. McGill was saying is that if you were translating values, and if a pers had usually been paying you 285 Canadian dollars and the value of the American dollar went up *vis vis* Canadian, it would cost him less money if he was paying you in Canadian dollars which generally the way exports are sold. I will repeat it. If a person was normally paying you in Canadi dollars — let's take the value of your product Canadian' let's say it was $275 — if they were at par, th it wouldn't make any difference to him. For 275 American dollars he would buy 275 Canadian doll and he would pay you. If the dollar had a Canadian premium, it would cost him more to buy yc product then the $275. 00. He'd have to pay $275 plus the premium. If there was a premium American dollars, it would cost him less to buy your product because he would pay $275 less t American premium and he would buy that amount in Canadian money and that's where t purchaser would get an advantage if the Canadian dollar went down *vis-a-vis* the American, but sin he's paying you in American dollars it is you who will have to either suffer an American premium pay a Canadian premium.

MR. HALLGRIMSON: We take the risk of that. We take the risk of the exchange rate.

MR. GREEN: And it's because you're selling in American dollars but if exporters are being paid Canadian dollars then their trade will increase if Canadian dollars go down in value *vis-a-vis* t currency that their importing country is using because they would be able to buy more Canadi dollars and therefore more Canadian goods for the same amount of money that they are using

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman I enter the discussion with some trepidation but I think the poi of what it's all about is not whether we're dealing in advanced international banking and finance b more to the point is the five percent premium that the devaluation of the Canadian dollar h occasioned, could it be used to, in a sense, give a discount on the selling price of your Americ product and therefore, would that give you an advantage in selling more products or undercutti your American competitors who you say have other advantages because of wood and all the oth conditions and that is the point. Could you sell more product and through that volume realize larg sales because you were in fact being able to undercut the American price because of your fi percent premium. I think that's the point.

MR. HALLGRIMSON: Well, in our view, obviously, if we felt that we could get more business l doing that, we probably would if it made any economic sense but, as I stated previously, we don't s the price down there and this is why we sell in American dollars. They wouldn't want to buy Canadian dollars and we find even with our sales over in U.K. and in Germany and in other countri in the Common Market that they, too, prefer to deal in the American dollar. And they want to l quoted in that price because that's the price they want to pay and that's the way our competitors a quoting. So really what it amounts to is that the seller of the product is the one that has to take the ri as far as the exchange rate is concerned . As I pointed out, at one time when the Canadian dollar w at a premium, we were losing five percent and now we're making five percent and we're very happ But there's no question, I guess, and we could take that but in our view we wouldn't gain anything t it.

MR. AXWORTHY: Well, that's the point. I mean, I think that you have the option, you have choice.

MR. HALLGRIMSON: We have a choice.

MR. AXWORTHY: But if you want to use that five percent premium while it's there you sell at lower price whether it's American or Canadian dollars; whoever is taking the exchange you've got five percent margin to play with either to add to your own profit margin or to use it as a way of getting a competitive edge. And I gather what you say is that even though you could therefore sell it, the price is 265 and you could sell at 255, that would not substantially increase your sales. Is th right?

MR. HALLGRIMSON: No.

MR. AXWORTHY: So in effect what we're talking about, I'm surmising from your remarks agai that you have almost a degree of price fixing or let's say price stability that is caused in that mark that is not subject to price competition.

MR. HALLGRIMSON: Well, there are a number of factors. When you say price fixing, I certain n't . . .

MR. AXWORTHY: Well, that's a strong term. Let's just say that in a very monopoly market . . .

MR. HALLGRIMSON: There is a market price. I think the point I've been trying to make is that ;'re very small in the market and no matter what we charge, we really have to follow what the market doing, what the other companies are doing.

MR. AXWORTHY: But I'm still not sure that if you're talking to someone who buys products from a lp and paper mill such as yours and he's selling in the American market and all of a sudden you me along and say, "Look, we're small but we try hard but not only that we can give you a discount the price." I find it hard to believe that those hard-nosed American businessmen who deal in this ea wouldn't say, "Hey, I can get the stuff for five or ten bucks a ton cheaper. That's going to cut my st down and therefore I get an edge over my competitors . . . " etc., etc. and I haven't found too any American businessmen who aren't looking for a deal. Why is it that they wouldn't be prepared take a deal from you and why then couldn't you sell far more products?

MR. HALLGRIMSON: Well, there are a number of things or points I think can be made in that nnection. Point number 1: many of the converting plants are integrated with other companies so at we can't sell there in any event. They produce their own, their parent company produces their vn. There are contractual relationships and again I think it's a question just of weighing whether we ould rather keep that $5.00 or try and gain something. I mean there comes a point where ' you know, e look upon it as being really an increase in our price and we are selling all our product. Don't forget at. We sold 108,000 tons of paper. Now, I don't know that I want to sell, you know, at the risk to wering the price, that I want to sell any more paper in the United States at $5.00 less than what I'm etting now.

MR. AXWORTHY: Well, Mr. Chairman, I'm sorry , again I may be missing something but I nderstood in your report, in your remarks that you said that you had a weak market and you had own days because the mill was not producing at full capacity because you didn't have a market to ell in and that was one of the reasons that afforded the deficit. So now you're telling me that you are elling all you can make. The question . . .

MR. HALLGRIMSON: Well, I'm sorry. All we did make. That's true we did take down time because e didn't have any orders. But I don't think that we would have got orders had the premium been in xistence then. I'm not at all confident that we would have got orders to fill those days by giving a ten ollar discount or whatever the five percent amounted to.

MR. AXWORTHY: I see. I'm wondering, is the reason for that, and again I'm not basing this upon y vast knowledge of the way the pulp and paper marketing works, but it sounds to me like a pretty osy network that goes on. I mean you've got kind of an agent down in the States who says we've got o much paper from this company and we've got these other converting companies we'll take it to, is at inability to use what is, at least, a short-term competitive edge based upon the fact that you don't ave that kind of ability to do your own independent marketing and you can't search out those ompanies that may be prepared to buy your product at a discount and that you're really part of that ind of . . . what happens in a lot of industries as we all know, simply becomes a kind of sweetheart elationships between suppliers and buyers etc., and are we really kind of caught in that system and ould we be able to break out of it by taking a different marketing approach?

MR. HALLGRIMSON: No, I don't think so. I don't think that the relationship is all that cosy. I have lluded to one fact and that is, and it's true in Canada too, many of the producing companies have eir own converting operations. So many of our natural customers are what we call independent onverters and down in the States, for instance, our customers are pretty well confined to that. We ave sold to some integrated companies but basically it's quite competitive, certainly with the ndependent converters, it's quite competitive. But there's a point where you just don't want to lower our price any lower.

MR. AXWORTHY: Again, Mr. Chairman, I'm confused when you say competitive because you nly compete in a couple of ways. You compete through price or you compete through quality or you ompete through high-powered sales tactics I suppose is a third way. And why is it that in this range f the market called independent companies that you deal with, that you couldn't expand your sales o the point where your mills could keep running full time and overtime if there was that discount ffered, if some of those independents thought they were going to have to pay a lower price for your ulp and paper. That's the point I'm still not sure why you can't use the edge of price competition as a ay of expanding your markets?

MR. HALLGRIMSON: Well, I'm sorry. Don't get me wrong. We are in a price range which, you now, there are companies that charge higher than we do and I don't think although as you rightfully ointed out we didn't run full out but to all practical purposes it was tantamount to that and right now ve haven't had any down time and we are disposing of our product . Actually our best market is in Canada and that's what we have been trying to develop more. At the present pricing levels I don't now that I'm all that anxious to sell more in Canada if I can sell it elsewhere at a better price.

MR. AXWORTHY: Okay, Mr. Chairman.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: Mr. Chairman, I think I understand what Mr. Hallgrimson is saying and doing respect to his currency exchange. He may be able to continue to do that and still participate in tl U.S. market as long as we don't continue to suffer a greater rate of inflation than the United State but if we continue to have a rate of inflation that is considerably higher than in the United States ar the value of the Canadian dollar continues to go down, I think inevitably you'll be out of that marke You won't be able to compete unless there is some way of passing on to the customers the . .

MR. HALLGRIMSON: Well, I'm sorry Mr. McGill, I just don't follow that because I think th devaluation, in my limited understanding of economics is a means by which exporters do overcome situation like we have today. It gives the exporter in Canada a higher return and he is the one who hi the higher cost and minimizes that difference.

MR. McGILL: But usually through greater volume of sales.

MR. HALLGRIMSON: No, I don't accept that. I think that if my costs are $20 or $30 higher a ton ar I can, through a favourable exchange rate, recover $25 a ton, I think I'm more competitive.

MR. CHAIRMAN: Mr. Dillen.

MR. DILLEN: I just have a couple of questions. I understand Mr. Hallgrimson to say that most the paper products that are produced at the mill are disposed of or sold in Canada. Is that correc

MR. HALLGRIMSON: Yes, about 60 percent, Mr. Dillen.

MR. DILLEN: Is that mainly in the packaging industry or is that building materials?

MR. HALLGRIMSON: Perhaps I should explain just what we produce. We produce unbleache kraft paper. We can also produce unbleached kraft pulp. Kraft paper is heavier paper. There are tw end uses for that. One is in what we call multi-wall bags, cement bags and other large commerci bags where there is a number of plys of paper.

The other use is in the heavier grocery bag, the carry-out bags in the supermarkets, the ones th they advertise as your only needing a single bag. Of that business we have perhaps 60 percent of th business in Canada, carry-out sacks in supermarkets. So I think that pretty well explains what w produce.

MR. DILLEN: Would I be correct in saying that then you produce the raw material for other ba manufacturers?

MR. HALLGRIMSON: That's correct. It's what is called a converter. They have machines; we se them the paper in rolls and they convert it into bags.

MR. DILLEN: Have there been any studies done to determine the feasibility of developing a ba manufacturing capacity adjacent to the mill in The Pas?

MR. HALLGRIMSON: No, we have not. I might add that most of these converting plants are clos to the market. If we were to get into that, we would have to have converting plants in other province and we have stayed away from that.

MR. DILLEN: You also have the wood mill as well, the sawmill. This question may have been aske and we may be just rehashing stuff and if it has and it has been answered, I'll get it from the file an you can indicate if you have already answered any of the questions that I'm asking because I wasn here at the start of the meeting. The products being produced by the sawmill, where are the majc portion of the products being sold?

MR. HALLGRIMSON: If you'll just give me a second, I'll see if I can find that. Thirty percent of ou lumber is sold in Manitoba; 5 percent in western Canada; 15 percent in eastern Canada; and 5 percent in the United States.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Just one question to Mr. Hallgrimson. In light of problems that have occurred wit Crown agencies such as Polysar and the sale of nuclear reactors, some of the companies are payin kick-backs to foreign people purchasing products that they are exporting. I wonder if you could te us if the 40 percent of production that is exported to the export market, if the Manitoba government c ManFor is paying any kick-backs to any company to purchase our product?

MR. HALLGRIMSON: We have agents and we pay sales commissions but we have nc participated in any kick-backs — that's a pretty broad term — but I think that in the sense that you ar using it we pay a commission; we have agents in the U.S. we pay a commission to. We have agents i London who cover the European market and many other markets. It's quite common practice to pay commission to an agent.

MR. BANMAN: But you have no dealings with the people who are actually purchasing? Now I ar talking about the user of your product.

MR. HALLGRIMSON: No, we don't.

MR. BANMAN: There are no financial arrangements with those people at all?

MR. HALLGRIMSON: No. In fact, in the United States, our arrangement with our agent there i: that the agent pays us. We don't assume the credit responsibility; they pay us directly then deduct th commission. We don't have any financial dealings . . .

MR. BANMAN: In your bookkeeping, as far as your accounts receivable and that, you deal directly ith your agent and you don't even deal with your accounts.

MR. HALLGRIMSON: That's right. Now that's in the United States. I'm just trying to go through ıis to make sure that there aren't because we have had to scrambte around for business. But that's ərtainly the case in the United States , and in the other main area in Europe, we also deal with our ɡent. We have no money flows either way between us there and I can't recall of any other situation. o there's no scandal there.

MR. CHAIRMAN: Shall the report be received? Agreed and so ordered.

The next is Leaf Rapids Development Corporation. Mr. Green.

MR. GREEN: Mr. Chairman, the chairman of Leaf Rapids Development Corporation is Mr. arasiuk. Last year I think he took us most way through an unaudited report of the year-end March 1st, 1976. It is now audited and here. I believe he also has some information with regard to the year-nd March 31st, 1977 as others have tried to do as well.

MR. W. PARASIUK: Mr. Chairman, last year I presented to the Standing Committee on Economic ›evelopment four documents: the Habitat Conference brochure on Leaf Rapids; an insert which rovided very detailed descriptive material on the Leaf Rapids development; I presented audited nancial statements for the year ending March 31, 1975; and also we did provide unaudited financial tatements for the year ending March 31, 1976 in order that the Committee might get the most recent ıformation possible.

We did this because we wanted to reflect the long-term position of the corporation at the end of ıe development in the town of Leaf Rapids. This year we have distributed the audited year-end tatements for March 31, 1976 — those were distributed in the House. I apologize for the delay in their ıeing distributed today. I assumed that they were being distributed in a composite Finance)epartment document of all the financial statement of corporations and boards. I found out that that locument has not yet been distributed so I had the audited statement distributed today.

In addition, I propose to distribute to members as information, our unaudited financial statements or the year ended March 31, 1977. We just were able to get them out today and we've been trying very ıard to provide this type of detailed information for the Committee. So if possible, Mr. Chairman, I vould like to distribute these now.

The audited financial statements for the year ending March 31, 1976 are virtually the same locuments that members received as information on June 1st of last year when the unaudited ;tatements for year-end 1976 were distributed to the Committee. There are two differinces and these ;how up on the Statement of Income and Deficit. There was a $34,000 interest adjustment by the)epartment of Finance in terms of the actual interest adjustment and that changed our accumulated leficit as of March 31, 1976 from $890,713 to $924,009 and this shows up on the audited statement as ı change in our deficit position.

Also, the auditor requested that part of the interest recovery out of the long-term financing of the ;orporation be allocated to Unrecovered Costs of Developing the Leaf Rapids Townsite. The ınrecovered costs were reduced from the unaudited statement of $1,345,528 to $623,053 as a result)f a $722,000 interest shift from current year to prior periods. But this bookkeeping change didn't ;hange our accumulative deficit of $924,009.00. So these audited statements that you received today ıre virtually the same, apart from those two changes, as the Committee received last year.

If I could, in my introductory statements, turn to the unaudited statements for the year ending Vlarch 31, 1977, I think the members would find these particularly useful because there are ;omparative numbers for 1977 and 1976. Just the general statements you will find in the white folder. (ou will find that the numbers you have in the purple document are in fact in this white document as vell and what we have done, we've updated them with our unaudited numbers for 1977.

Generally, and I'm not talking about a particular page, our position from last year has improved ınd the town properties, with the exception of the hotel, are doing well. We have retained earnings ıow of $559,000 for the year ending March 31, 1977 and we have decreased our long-term debt from $9.275 million to $6.674 million.

On the balance sheet — this is the balance sheet of the unaudited statements for March 31, 1977 — I would like to draw attention to some of the footnotes which explain some of the highlights to you. Note 1 is a Winter Works Grant, a Federal Winter Works Grant which has been included as an asset. It had been mentioned in the audited statement for 1976 and as all the "i's" have been dotted and the "t's" crossed, our Treasurer informs me that we can include this in our assets. We have not received a cheque but we will be receiving it shortly and it will be allocated to our assets for year ending March 31, 1977.

Note 2 indicates that we are capitalizing carrying costs of 27 developed house lots in Leaf Rapids of which 16 are sold but haven't been transferred yet and the remaining eleven are unsold.

Note 3 gives you the detail of our property plant and equipment and in it you will note in that note we are depreciating our buildings and equipment according to generally accepted accounting principles. In actuality, although we have not formally appraised the present value of property plant and equipment, the corporation believes that there has been a substantial increase in the net bo values of the Leaf Rapids Town Centre Complex and certain other of its assets. Indeed a quant surveyor's estimate for the town centre replacement cost for our $10 million town centre facility w $13 million in September of 1976 and this is with a very conservative estimate of the inflation aspect.

Note 4 regarding the balance sheet refers to property acquired in west Selkirk and in south Boniface from MHRC. This is now held by Leaf Rapids Corporation and is being developed by Le Rapids Corporation. I'll go into this further a bit later.

Note 5 indicates that these lands constitute an account payable to MHRC.

In Note 6 we have a decrease in our long-term debt position from last year. The big decreases ha been brought about by prepayment of some of our long-term institutional leases.

Note 7 — I draw your attention to that — indicates that our capital stock has remained the sar although ownership is now held by the Department of Finance as opposed to being held by MD This is done to expedite possible transfer of Leaf Rapids town properties to the community of Le Rapids.

Also in this regard, Note 9 indicates that we have split Leaf Rapids Development Corporation in essentially two entities: Leaf Rapids Development Corporation (1977) Limited; and Leaf Rapi Town Properties Limited. This was done to separate our Winnipeg area subdivision developmer from our holdings in the Town of Leaf Rapids. We are doing this because the possibility does exist f us to meet our longer-run objective in Leaf Rapids of having the community take over the assets ai liabilities that we have developed in trust for the people of Leaf Rapids. Preliminary discussions this end have already been held between the board of the corporation and the Town Council of Le Rapids.

Looking at the Statement of Income and Retained Earnings, in terms of last year's operations, v had a gross income or a gross profit from operations of $222,472.00. This was before depreciatio interest on long-term debt and corporation capital taxes. We had an extraordinary item of tl $1,551,000 Federal Winter Works Grant which has reduced our deficit of last year and leaves us wi retained earnings of $559,675.00.

Now if we look at the Schedule of Operating Revenues and Expenses — this is the last schedu there — the important item here is the hotel, the Whitewater Inn. We have continued to experien decreased occupancy rates and we are still showing a hefty loss after depreciation. We have ha some net improvement from last year and this is a result of greater productivity; we have bee pruning some of our staff, making it tighter. Our occupany rate actually decreased last year but v were able to show a slightly better net position than we had had in 1976.

Generally, in Leaf Rapids we expect the situation to improve generally with respect to the tov properties and particularly with respect to the hotel. This is because Sherritt-Gordon has announce its decision to proceed with the underground development of the mine at Ruttan Lake. This shou add to the numbers of people in the town. At present the population is about 2,200. We were real expecting the initial population to be in the order of 2,700 or 2,800 but the mine was a bit slow proceeding with their underground operations; but they have made that decision to proceed wi their underground operations. As the population increases and as there is more general activity Leaf Rapids, the volume of commercial and hotel business will increase.

I would like to give the Committee also a brief overview of what the corporation has been doir outside of the Town of Leaf Rapids. First, we are in the process of developing a 66-acre subdivision the Town of Selkirk. This development will have up to 435 lots selling at an initial average price $8,000 a lot. We are presently grading the site and we hope to have up to 100 lots available for hous construction by September of this year. We are negotiating sales with both individuals and hous builders.

The primary objective in west Selkirk is to provide lots at a reasonable enough price to allow home to be built at a total lot and house price of up to $38,500, which would allow the owner to quali for the Federal Assisted Home Ownership Program, the AHOP Program. We think a market exists f single family detached homes which would qualify for AHOP. Unfortunately, very very few sing detached homes which qualify for AHOP are in fact being built at present. We think that our lots, bo in Selkirk and in St. Boniface can help fill this gap.

In south St. Boniface, Leaf Rapids Corporation is developing 197 acres just south of the Hyd right-of-way and east of the Seine River. The first phase of this development probably wor physically get under way until March of 1978. The first of three phases will provide about 400 housir units. Again, we are aiming for the single family detached housing market under AHOP, but we a providing for all alternatives of lot sizes in order to provide a good community context.

The Selkirk and south St. Boniface developments at present comprise the entire activity of th Leaf Rapids Development Corporation (1977) Limited.

Now, in relation to the white document that you have for the year ending March 31, 1977, our sta complement at that time was nine in the Winnipeg head office and about 41 in Leaf Rapids, six and alf tied into properties management and maintenance and somewhere in the order of 35 employed the hotel.

These are my opening remarks, Mr. Chairman. I'll stop now and deal with questions.

MR. SPIVAK: I wonder, Mr. Parasiuk, if you could indicate, in terms of the acquisition of the West elkirk property and the St. Boniface property, these were decisions of the Leaf Rapids Board? Were ley independent decisions or were they decisions in which there was direction given from the overnment?

MR. PARASIUK: There had been discussions by the board on this item. We had discussed this ith the board of MHRC and it was discussed at the Cabinet level as well. The decision was that IHRC should see if they could transfer ownership of the land to Leaf Rapids Corporation in order to arry out the type of tasks in development that I indicated.

MR. SPIVAK: So that in effect the board, after discussion with MHRC afd Cabinet, really direction would assume because that's where it had to come from, proceeded with this. Were there any tudies undertaken before the land was purchased or was it just a matter of negotiations and the iscussions and the memorandum sent to directors and the government?

MR. PARASIUK: With respect to the MHRC property, I don't know if they had conducted studies efore they purchased the property. For a while we were acting as consultants to them in looking at he way in which the property, once it had been acquired' could in fact be developed.

MR. SPIVAK: You were involved as consultants for the East Selkirk property, is that right?

M. PARASIUK: We had been involved as consultants on the East Selkirk project.

MR. SPIVAK: At the request of MHRC?

MR. PARASIUK: We have been working for MHRC on this.

MR. SPIVAK: In the East Selkirk proposition, was there any discussion or negotiations for the acquisition of the land in the same way that West Selkirk was acquired, or St. Boniface?

MR. PARASIUK: No.

MR. SPIVAK: So it was simply a question of MHRC asking for your opinion?

MR. PARASIUK: No, we organized an engineering and financial study for MHRC of the East Selkirk property.

MR. SPIVAK: At the request of MHRC?

MR. PARASIUK: At the request of MHRC.

MR. SPIVAK: Was that matter discussed as well at the Cabinet level?

MR. PARASIUK: It was discussed at the Cabinet Committee level.

MR. SPIVAK: You have given that recommendation to MHRC?

MR. PARASIUK: What recommendation?

MR. SPIVAK: The study with respect to East Selkirk.

MR. PARASIUK: Yes, we have in fact given them the study.

MR. SPIVAK: Has that been given to Cabinet as well?

MR. PARASIUK: That has been sent to some of the Ministers involved.

MR. SPIVAK: Would you be prepared to indicate what that study recommended?

MR. CHAIRMAN: Mr. Green.

MR. GREEN: I have indicated that the study has been done by Leaf Rapids for the MHRC. I have also indicated that there was a recommendation in it but I told the honourable member in the House that the MHRC was the one that requisitioned it and they will have to deal with MHRC. He is now doing the same thing, asking the consultant what is in the report that they made to their principals, and the principals are MHRC. I do not think that there will be any difficulty in this connection, but it would be wrong for the Leaf Rapids Corporation to give it to you. It was given to MHRC. I have a copy of it; the Premier has a copy of it; Mr. Evans has a copy of it; MHRC has a copy of it.

MR. SPIVAK: Mr. Chairman, this is a rather difficult position but it is one position that the government has to resolve with respect to this. In effect, Mr. Parasiuk has presented and made a statement of the Leaf Rapids Corporation in which he indicated that they have expanded into another area and that in fact there has been an additional corporation, a subsidiary company, set up which shows the expansionary feature of the Leaf Rapids Corporation. No one is quarrelling or questioning that at this time. He has also indicated that in fact the involvement was both MHRC, government, and the Board of Directors of Leaf Rapids Corporation, a Crown corporation.

The problem I have here at this point in dealing with this particular situation is that, if in fact this Committee is precluded from dealing with this matter in the sense of being able to understand what was recommended, then in effect what we really have is, oh, a situation in which all the cards will be kept down and no one else will be entitled to see what they are except the Cabinet.

MR. GREEN: Mr. Chairman, I believe that the capital estimates of MHRC have not been passed by the House yet. I have merely indicated that in this particular case — and I was somewhat doubtful about it myself — Leaf Rapids is not the owner of the land; they are not dealing with the land; they are not being asked to develop the land. They have acted as a consultant to MHRC and have given them a report. I would think that if you want to deal with the contents of that report, you will have to deal w MHRC. It's not that all the cards are down. The honourable member would surely not ask Underwo McLellan what they reported to the City of Winnipeg. He would ask the City of Winnipeg, and it wou be wrong for the consultants to report to other than their principals. The honourable member can g his questions and deal with them through the principals, MHRC.

MR. SPIVAK: I wonder if the Minister of Mines and Natural Resources would be prepared indicate that he will table the report in the House when requested.

MR. GREEN: Mr. Chairman, I have already indicated in the House what my position is — I'm n the Minister responsible for MHRC. He will have to deal with the Minister Responsible for MHRC. I d not believe that he is going to have a problem in this connection but it certainly is not going to be tl policy of the Lead Rapids Development Corporation, who may be working for other people, who m work for private people, to turn over their consultants' report to the Committee that they ha prepared for somebody else.

MR. CHAIRMAN: Do you have another question, Mr. Spivak?

MR. SPIVAK: Yes, I have a few more. Mr. Parasiuk, can I ask, have you undertaken any oth consulting function for MHRC?

MR. PARASIUK: We had originally undertaken some consulting functions in relation to the We Selkirk properties and the south St. Boniface properties.

MR. SPIVAK: Other than those properties that you acquired?

MR. PARASIUK: We had done some general work with respect to the timing with which son properties that are held in the MHRC land bank may in fact be able to be developed.

MR. SPIVAK: In the consulting arrangements that were made with MHRC, was the possibili discussed, that in the event the project would prove viable, it would be then acquired by Leaf Rapi Corporation and proceeded with in the same way that West Selkirk was being proceeded with?

MR. PARASIUK: No, there was no discussion in that sense.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, can I be of assistance. At one time it was assumed, and I think th chairman reported that Leaf Rapids Development Company would be the development agency f the MHRC. At one time that was assumed. The chairman has already indicated that this fall th arrangement was not decided to be continued , and rather than being the developing agency f MHRC, the land was turned over to them, which they now own, and they are developing that land as single agency for the Leaf Rapids Development Corporation. But at one time that was considered be the concept; it may still happen. MHRC could still ask them to develop land, but that is not what occurring with regard to the particular piece of land in West Selkirk — and in St. Boniface I think the turned over the land too.

MR. PARASIUK: Yes.

MR. GREEN: They are also having other development agencies do work for them. That's why I sa it's not considered to be the total relationship.

MR. SPIVAK: I want to turn then to another matter. With respect to the Whitewater Inn, I wonder you could give a breakdown in round figures with respect to the makeup of the revenue from th operation? That is, how much is rooms, how much is food and how much is liquor or beer and wine

MR. PARASIUK: I don't have that breakdown.

MR. SPIVAK: I wonder, when you say the occupancy is down, are you are referring to th occupancy of the room, or are you referring to the room section?

MR. PARASIUK: Room section.

MR. SPIVAK: Do you know what your percentage is at this point?

MR. PARASIUK: It decreased about 10 percent from last year — somewhere in the order of 3 percent.

MR. SPIVAK: Your occupancy in rooms was 30 percent?

MR. PARASIUK: Last year, yes.

MR. SPIVAK: How many rooms do you have?

MR. PARASIUK: Forty.

MR. SPIVAK: Forty. Your occupancy is 40 percent, which would mean 12 rooms. Do you kno what your average room rate is then?

MR. PARASIUK: The room rate is in the order of just over $30.00.

MR. SPIVAK: Thirty dollars. That means that the bulk of the revenue is from food and liquo realistically. Then, relating to your costs, do you know what your labour costs and your food cost are?

MR. PARASIUK: We have broken that out; I do not have that here.

MR. SPIVAK: One of the difficulties — through you, Mr. Chairman to Mr. Parasiuk — in sort c reviewing this and understanding the operation, there is really one area in which there appears to b losses — to understand the nature of the operation and to understand — aside from the need fc service — whether the percentages that are being achieved in the operation conform to sort c nchmark standards that have been set in the industry. There is no way in which you can judge or en deal with this. We're in this position, Mr. Chairman, through you to Mr. Parasiuk, and I think you ll acknowledge this. There is no way you can really deal with this except to accept what you are ying, which is to accept the gross revenue and the expenses — and I'm not saying that the figures e incorrect — but without being in a position to deal with this — the point being that on the basis of e revenue that you are showing in terms of a food and liquor operation, your operating expenses ould appear to be fairly high if in fact you've only achieved a 30 percent occupancy on hotel rooms.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I don't disappreciate what the honourable member is saying, but rhaps the only way it could be handled — and it is understood that my honourable friend is very uch involved in the hotel business and therefore could probably ask more sophisticated questions an the rest of us — I say that not as a criticism, I would think that that is correct — that the eakdown is not here. The only thing that the honourable member could do is to make even a list of uestions of what he would like answers for. The MDC is going to be meeting again, so the ommittee will be meeting again, and I will have Mr. Parasiuk back so that you can ask those uestions after receiving that information. It should be noted here that the cash loss on this hotel is omething like $7,000 because there is $78,000 which is in depreciation.

MR. SPIVAK: But the interest charges specifically against the hotel operation are included in the et interest charges overall; they are not applied individually against the hotel. So that in trying to ore or less make a comparison with commercial undertakings . . .

MR. GREEN: Well' they have had some problems with some of those hotels up north, as you know.

MR. SPIVAK: Yes, I know that they have had some problems but . . . well, we won't deal with that this point.

MR. PARASIUK: If I could just comment on this, Mr. Chairman. We have had our staff dealing with e Manitoba Hotel Association on this. We have been looking at benchmark numbers and we've een reviewing this on a continuing basis and we've been paring down our staff. We do have roblems with staff up north, turnover problems, the type of problems that I think all northern hotels ce, especially in a situation where you have high wages being paid to miners and the difficulty in rms of offering wages which will keep people there in the service sector.

However, one of the interesting things that we have found in trying to get these benchmark umbers, is that I can't get the type of breakout from the private sector that is expected of me when I resent material here to the Standing Committee. I have tried and I have asked MDC for a breakout of eir information. They say that is confidential information and I could not get it on hotels that they ave in fact provided assistance to. I don't know whether in fact I should be providing more to the tanding Committee than the private sector generally provides. We're not trying to escape having the eview. We in fact, I think, provide more information than most other entities do when they come efore the Committee. We are reviewing it; we have been reducing staff. We have had problems with urnover. We have a problem often with the hotel manager himself or herself. We think we are ottoming out on that. Our staff costs have been in fact reduced and we think we are in control of the ituation going into the next year.

MR. SPIVAK: The reality is that if in fact we were apply a factor, say, of 10 percent to the interest on e money and the capital assets of Whitewater Inn, that would be about $175,000 and that would be a ormal cost to be added to the figures that you have. Now, what concerns me about what you're aying in taking the figures which have been referred to as the daily rate, you are not going to achieve even if you have 100 percent occupancy, a situation of even a break-even point.

MR. GREEN: Does the operating expense include a rental? It does include a rental.

MR. SPIVAK: My point being that even if you had 100 percent occupancy in here, the dollar olume and even relating it to the marginal situation, that exists in food and liquor — yes, a market ituation — the reality is that, in terms of the project, the likelihood is that the break-even point may ever be achieved unless there are other adjustments that are made. And in terms of analysis, without rying to interfere or becoming involved in a situation which will put you in a position of doing omething that other institutions would not do, I think it would be interesting to know, as a result of he review' whether in fact you can indicate to the Committee — and I think that would be a better way ased on the kind of position that has been demonstrated from the experience of the last two years. 'ou can indicate the percentage of occupancy you think you require to be able to break even, earing in mind that that would also carry the proportionate amount of interest charge that would ave to be levelled against the capital asset that is included. And if that can be done, then that's fine, hey don't need it any more. But I question whether 100 percent occupancy will ever give it to you. . . vill ever give you the break-even point.

MR. PARASIUK: Mr. Chairman, I would have to go back and check through our original alculations and the reports that we received from Hotelier Consultants that we used in the evelopment of the hotel. I am not in a position to answer that question tonight.

MR. SPIVAK: Can I ask a very short question. Has the board ever considered that the Whitewater

Inn would ever be a sustaining operation, that it would be an operation that would either break eve or make money?

MR. PARASIUK: We have realized that in the eight-year period, the initial period of the hotel existence, that we would be in a very difficult position and we probably wouldn't be showing a breal even position on it for probably up to ten years. That, in part, is the result of inflation that hit us right i the middle of the actual construction of the development, especially in terms of the equipment th we had to purchase.

MR. : CHAIRMAN: Mr. Green.

MR. GREEN: Well, Mr. Chairman, I was myself troubled by the suggestion that there is no capit cost charges to the hotel and I am still not sure I understand it but —(Interjection)— Well, yes, th same thing, charges for reducing the capital that has gone into the project. My understanding is th the hotel pays its share of the total operational costs of the complex. If that is the case . . . -(Interjection)— Operating costs which includes . . . oh, it doesn't include . . .

MR. PARASIUK: No, it doesn't include that service.

MR. SPIVAK: It doesn't include that service and I'd just taken ten percent of the . . .

MR. GREEN: If it paid a rent, I am advised that it would come out the same way although I don't se it so I don't understand it myself, I'm sorry. Well, it will have to be more explained to me then.

MR. SPIVAK: What I would be interested in then is not so much the figures in terms of percentage but some information from Mr. Parasiuk as to what volume would have to be reached from their poir of view, the Board's point of view, and with the knowledge that they have of break-even. In terms c percentage . . .

MR. PARASIUK: Right. I will endeavour to provide that. I can't provide that tonight but I wi endeavour to provide it . . .

MR. CHAIRMAN: Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I almost attempted to make a suggestion that the only way out c this particular problem is if the Whitewater Inn adopts the practice of other hotels and had doubl occupancy during some evenings.

Yes, Mr. Chairman, I have a few questions for Mr. Parasiuk. I am particularly interested in th changeover of the corporation after it really finished as a townsite developer. I gather you decided t incorporate a subsidiary and then become really what is kind of an interesting position that you ar now a developer for the government, in effect. Is that right? Would that be a fair description of the rol you play?

MR. PARASIUK: We are a developer for the government for two properties, yes.

MR. AXWORTHY: For two properties. Could you explain to me how Leaf Rapids differs in that rol as compared to the Manitoba Housing Renewal Corporation which is also in the developmen business?

MR. PARASIUK: MHRC has two functions. Its primary task is to provide public housing, housin that is either elderly persons' housing or low-income family housing. This it does through a federa program through CMHC.

It also has land banked which it could then turn into serviced lots. But when it starts performing it other function as a land developer, it is not dealing with a known demand and it has to, in fact, build number of low-income family units, or elderly persons' units to meet a known demand with respect t elderly persons' housing. It is, in fact, dealing with the market. You are trying to determine what is th gap in the market, what are the gaps in the market, you are looking at what other builders are doing you are looking at what type of supply is available, you are trying to figure you are looking at incom levels of people' out what the market really is. And in that area, when you are dealing with marke activity, we, at the board of Leaf Rapids, felt that it was quite important to have the responsibility fo judging the market, and the accountability as well for judging the market, clearly ascertained anc focused with one entity.

MR. AXWORTHY: Mr. Chairman, I find that there is a very curious remark Mr. Parasiuk just made He said, "We at Leaf Rapids decided that that was the role they should play." I assume, or I woulc normally assume that that would be a decision made by government, but if they are assigning, or ir effect taking away a function from MHRC and assigning it to another one of its agencies, that tha would not be a decision of one of those agencies, but would be a decision by the government tc redirect that. I am equally curious about why the decision was made because in most other provinces the public housing corporations are normally in the land development. When they had land bank they are usually the developers of that land and put sites on market, have the sites prepared and offer them for sale or for use of other agencies. I am wondering, first, it may have been a slip of the tongue, I am not sure, or if it was then I certainly would not assume that it would be the decision of Leaf Rapids to make that choice, I would presume it would be a Cabinet choice and furthermore, I'd like to know the reasons why.

MR. GREEN: Mr. Chairman, I did indicate that this was discussed between the various agencies oncerned — the MHRC, Leaf Rapids and the government — and there was a decision made with espect to these three particular properties, that Leaf Rapids would be the developer, not as an agent or MHRC but as a separate entity, as a result of feeling that it would work out better if it was done in his way. That there were difficulties as between the two different agencies handling the same roperty.

MR. AXWORTHY: Yes, Mr. Chairman, I could see that there might be difficulties between . . .

MR. GREEN: Do you want me to tell you everything that was said to the Chairman of Leaf Rapids nd the names that were called or things of that nature?

MR. AXWORTHY: No, no. God forbid! Mr. Chairman, the Minister knows I don't want to know what hey were . . .

MR. GREEN: Yes, I think he does want to know that, Mr. Chairman.

MR. AXWORTHY: Mr. Chairman, I frankly don't want to know the exact verbatim discussion. — Interjection)— Yes, that's right. It does get that it's like yelling in a rain barrel in some of those liscussions, but what I am more interested in knowing is that the decision was made to, in effect, ransfer certain land development responsibilities from MHRC to Leaf Rapids in respect to these two roperties which I assume that it was calculated on the basis that MHRC was neither able or willing to levelop those properties in that way.

Mr. Chairman, the question, perhaps the more pertinent question, from the public's point of view s, if you are in fact introducing an additional middleman into this operation, and if MHRC has obtained the property, has undertaken the administrative work, and now transfers the property to nother administration, does that not substantially add to the cost of that land, and that therefore, has prevented it from being provided at a lower cost to whomever the user is going to be, simply by adding another agency into what used to be a single operation is now a double operation?

MR. GREEN: Mr. Chairman, we certainly felt that there would be less charges because there were he two operations. There was MHRC , and the Leaf Rapids Development Corporation, except that Leaf Rapids was developing as the development agency for MHRC. We found that it could be done nore expeditiously if the Leaf Rapids Development Corporation would transfer the land, there is no cost changed there, and developed it without reference to the MHRC, and certainly, that doesn't add an element; it reduces one element.

MR. AXWORTHY: Mr. Chairman, I must confess that that's a very strange way of assessing cost because in normal transactions when you add an additional party to a transaction it increases costs.

MR. GREEN: We're reducing by one; we're reducing by one.

MR. AXWORTHY: No.

MR. GREEN: In normal transactions when you reduce by one party you reduce costs. There were two parties, : MHRC and Leaf Rapids. They were both there. We have taken out the MHRC and left Leaf Rapids.

MR. AXWORTHY: Mr. Chairman, I find that that is not true. The fact is that MHRC was the original purchaser of the land, it obtained the land, it went through the administrative arrangements for the land so that it was a party and still is to that transaction.

MR. GREEN: No, it is no longer a party to the transaction relative to the development of the West Selkirk property. It used t to pay Leaf Rapids and Leaf Rapids did the work. Now Leaf Rapids does the work by itself and the capital that had been given to MHRC to do it is given to Leaf Rapids.

MR. AXWORTHY: Passed over?

MR. GREEN: That's right.

MR. AXWORTHY: Although MHRC has already gone through the initial costs of purchasing the land and the administration.

MR. GREEN: But they paid Leaf Rapids for the development work that was done on it. And Leaf Rapids has to repay to NHRC any of the additional costs with regard to acquiring the land.

MR. AXWORTHY: Recoverable costs.

MR. GREEN: That's right. The figures remain the same. The only thing that has changed is that there's no longer a dialogue between MHRC and Leaf Rapids as to what is happening, Leaf Rapids is doing it themselves.

MR. AXWORTHY: Well, Mr. Chairman, if we follow that logic to its conclusion, and I suppose that we can assume that all MHRC lands should be transferred to Leaf Rapids for development purposes and is that the intention?

MR. GREEN: No, that's not so.

MR. AXWORTHY: So we are not going to save costs in that respect.

MR. GREEN: Mr. Chairman, I have indicated to the honourable member that MHRC is using other development agencies to develop land as well their own facilities. So when you talk about saving costs in other respects, if there is another arrangement where they want to have Leaf Rapids do it and transfer the land, and that will save money, we will do it that way, too. Leaf Rapids is not now working for MHRC on any other lands. If they were and it was cheaper to or more expeditious to transfer it, we would consider it. But that is not the case now with any other parcels that I am aware of.

MR. CHAIRMAN: Order please. Can I remind honourable members that this portion of t meeting is for asking questions of the Chairman of the Corporation. If members wish to debate, th should do so upon the motion to adopt the report. Mr. Axworthy.

MR. AXWORTHY: Mr. Chairman, I was wondering if Mr. Parasiuk has had any comments on tho points.

MR. PARASIUK: I would like to make a general observation with respect to what takes place other provinces. B.C. does have a development corporation called Dunhill . . .

MR. AXWORTHY: It has been sold.

MR. PARASIUK: Fine. Alberta has had the Alberta Housing Corporation develop the communi of Fort McMurray, I I have been in looking at Fort McMurray. They have been dealing with a mark situation that they weren't particulary particularly used to, and the selling price of lots there $25,000.00. I have taken the officials from Alberta through Leaf Rapids and have had them look what we have done. They have looked at the lots which are at least comparable — in some respec better — they sell in Leaf Rapids for $7,500 at full recovery cost, full recovery of cost.

I think that in the area of land development, there aren't necessarily any tried and true ways. I thir that what is important is judging the market, and that is something that I think is best done by or entity.

MR. AXWORTHY: All right, Mr. Chairman, I think that I could also paint some obverse examples t those that Mr. Parasiuk used, the Millwood's project being one where the land costs are bein developed solely by the initiating housing agency but, let's leave that for a moment and come back t some other questions. Can I assume then that the definition of the goals and objectives for Le Rapids Corporation is to, at this stage, simply act as the developer for lands transferred to it, or sold t it, by MHRC? Does it have any other role envisaged or in mind by the government for Leaf Rapids

MR. PARASIUK: There are some other possibilities. We have been approached from time to tim to provide advice to entities that are considering a combined commercial, institutional an residential development. These have included delegations from other countries. It included research group coming up from the U.S. Army, they have included people from CMHC, they hav included people from other provinces. As yet, we have not been formally hired to undertake particular task for another public entity, although if asked to we would certainly consider it ver seriously.

MR. AXWORTHY: Well, Mr. Chairman, considering that the only relationship at this stage is th one with MHRC, could I ask that when this particular transactions took place, what was the basis fc setting price on it? Was it at cost to MHRC the land was, was there a negotiated price on the land

MR. PARASIUK: No, it was the cost, it was the cost plus the expenses incurred.

A MEMBER: We have to give them back everything.

MR. AXWORTHY: So there was cost of purchase plus any expenses that MHRC incurred in th holding of the land and the transferring of the land. Okay.

Now, in these two sites, Mr. Chairman — I think it's annoying — in the West Selkirk site, you sai that you've got a 66-acre location, 235 lots, they're talking about a . . . I presume it is mainly a famil market for that area. I would be interested in knowing why the choice was West Selkirk on the basi that Selkirk has a depressed economy, unemployment is very high, two major lay. So offs in the area assume that you believe that the market would be primarily a commuting market to Winnipeg. Is tha correct? Who are these houses designed for?

MR. PARASIUK: We are looking for future inhabitants of West Selkirk.. There's a penitentiar going in there, I know that the economy is such . . .

MR. AXWORTHY: Mr. Chairman, I think that that is a little premature.

MR. PARASIUK: Okay, well, I'm not debating that, I'm looking at potential market. We feel tha there is some market, not for a great new demand for housing, we also think that there is a commutin market, we are not talking about a very rapid type of development in Selkirk. When we were asked a that time to proceed with the West Selkirk development, we did so at a time when it was felt that it wa very difficult to get land serviced right in the City of Winnipeg. Since that time events are proceedin in such a manner that we find that we think we can proceed with the south St. Boniface developmen and I think that MHRC is proceeding with another development. But we do still think that there is a modest, not a dramatic market in Selkirk and so far the response of individuals and house builder indicates that there is this modest demand.

MR. AXWORTHY: Mr. Chairman, can Mr. Parasiuk indicate what the pick-up has been on these lots?

MR. PARASIUK: We only advertised the lots and were pre-selling them a month ago. This is a bi of a delicate process in that house builders want to know who else is going in, how many lots are they taking. So we're just in the stage of negotiating with individuals and with builders at present in the order of 40 lots.

MR. AXWORTHY: 40 lots out of 235.

MR. PARASIUK: No, of the original 100 that we thought we might be able to make available by ɪptember of this year, which I indicated before.

MR. AXWORTHY: Mr. Chairman, what was the projection for the take-up on these lots. Is that on hedule or is it . . .

MR. PARASIUK: Well, we were assuming originally that we would be probably marketing the lots, ɪrhaps a bit later, but we decided to move earlier with the marketing of the lots because we have ɔck zoned and we have the flexibility now before we go in with the services. So we want to just do a ɜt of the actual market as opposed to a projected market.

MR. AXWORTHY: One of the questions then, on the south St. Boniface site would be again the ojected demand for these sights in relation to the overall single family market in Winnipeg which ns about some 2,000 odd units a year. What is your expectation of the number of the percentage of ts that you will satisfy in that overall demand?

MR. PARASIUK: At this stage, we assume that we will be satisfying only a small percentage of that ɾerall demand over that course in the next three or four years. I don't have the exact details with me ɜre but we know that we're not talking about making some great inroads in that demand.

MR. AXWORTHY: Mr. Chairman, I take it then that the purpose of the south St. Boniface sight is ɔt as an instrument to try to ameliorate or bring down land prices in Winnipeg but simply to offer X ɹmber, a small number of lots at , in effect, a subsidized price to a small number of consumers. Is at correct?

MR. PARASIUK: Well, Mr. Chairman. You see, I think there is a mistake. There is no subsidy volved at all. We are trying to recoup our costs and make an average return over costs of ten percent ɹt we think that there are fair returns.

MR. AXWORTHY: Mr. Chairman, there's a major subsidy in the fact that the loans are acquired om Central Mortgage at a reduced interest rate and it is a subsidized capital expenditure.

MR. PARASIUK: No, we are, in fact, going to get a . . . —(Interjection)—

MR. AXWORTHY: Well, not necessarily on the land portion.

MR. PARASIUK: We have not concluded our financing yet with CMHC. We are doing calculations n a basis of ten percent.

MR. AXWORTHY: Well, I'm still trying to get to the purpose of these projects. You've develop land ɪr a couple of purposes. Either you're going to build beautiful new communities or you're going to y to offer land at lower cost. From a public agency's point of view, where I'm assuming that you're cting in the public interest and therefore I'm trying to determine what the purpose is in the evelopment of these sites. Well that, I think, is the sum of my question. That the combined effort in oth these sites to put units on the market at below — I think you said $8,000 is the range that you're ɪoking at per lot. Is that correct?

MR. PARASIUK: That's for Selkirk.

MR. AXWORTHY: And what is your expectation for south St. Boniface.

MR. PARASIUK: We are in the process of discussions with the city so it would be somewhat remature for me to fix a price right now for the lots in St. Boniface. That will depend in part on some f the city requirements.

MR. AXWORTHY: Well, Mr. Chairman, rather than fixing the price though, would it be, $20,000 or ay lots are going at $25,000 in that area, would that be within that rate?

MR. PARASIUK: No, we assume that we would be substantially under that.

MR. AXWORTHY: So your lot prices will be lower but that it will be again for a couple of hundred ɔts a year over a period of three or four years. Is that right?

MR. PARASIUK: Well, that's in relation to that particular property. There is other land that, in fact, ; banked by the province and I'm not in a position to really comment on the extent to which MHRC or ɿe city and MHRC in respect to the land that the city and the province jointly owns, will in fact be ervicing lots and providing them on the market. Our objective in the shorter run right now is to ɪrovide lots at what we think is a fair price and we assume then, that there is a demand for lots at a fair ɪrice and that this is not a subsidy in any way, shape or form and that might have some effect in the ɪeneral marketplace when people come on to lots that they can pick up without any subsidy, that are ubstantially less than what some of the private land developers are selling their lots for. I would ˌssume that they will start doing some comparative shopping and asking some questions.

Now granted if we don't have a sufficient supply in the short run we won't dramatically change the ɔt prices. However, what we can't really quite forget is the phsychological impact that this might ɪave on people who then go and start saying, "Well, why do I have to pay $20,000 or $25,000 for a lot? Vhy can't I be picking up lots at a price that is being offered right now?" Which, in fact, entails a fair eturn, a ten percent return. It's seen by most people as quite a fair return.

MR. AXWORTHY: Well, Mr. Chairman, as much as I would wish Mr. Parasiuk well, the experience n almost virtually every other form of public land assembly in developing sites is that that just doesn't ɪappen. In fact, unless there is sufficient land supply through the public agency to affect the market, hen those lots simply are used up , and private land sometimes is just withheld from the market until they are chewed up and then you go on to the same escalation you are before . But my points th comes back to though in terms of the purposes of these particular developments and dor misunderstand me, I'm not being critical of their nature but I am trying to relate them to the cost ar effort that is going in to their development whether the capital and the effort may be more fruitful directed. I say that in particular because, according to Leaf Rapids' own studies of the MHRC lar supply, most of it is inaccessible or not ready for development for at least five or eight years. It's yo own studies. Is that not true?

MR. PARASIUK: It would indicate that in terms of the way the city presently projects its maj services, that a great bulk of the land may not be able to be developed for five years. That doesr mean that if there is some impediment that land couldn't be brought on service sooner than that. Th is a larger decision for me to deal with as chairman of Leaf Rapids Corporation.

MR. AXWORTHY: Mr. Chairman, on these two sites I have some other questions which, I think a really our only public developer, I think are important to answer. In the case of the West Selkirk sit that if the reliance is going to be substantially upon a commuter market — people living in Selkirk an working in Winnipeg and travelling back and forth, compared to other developments going in th area — I would suggest just for the sake of argument, that the full costs of the development of that sit and other things in West Selkirk, are going to have to be borne by the municipality of Selkirk and b other agencies of the Government of Manitoba.

For example, the Department of Highways, because Highway 9 is presently operating at fu capacity according to the consultants' reports and that the development in West Selkirk along wit other developments taking place in the St. Andrews area, would mean that there is going to be ver heavy requirements for capital input. Similarly, in the south St. Boniface site, the numbers c population that you are projecting for that site again will put enormous pressure upon the alread over-full streets and thoroughfares coming out of St. Boniface area to downtown and could, or migh require almost additional trasnportation lines of some kind, either public or for private traffic. And I'r just wondering, as a developer in these areas, have you ever taken into effect these, you know secondary costs into account and are you able to make some estimate as to who is going to bea these costs and to what degree you share some responsibilty considering it's your development

MR. PARASIUK: Mr. Chairman, Mr. Axworthy has raised some very interesting social econom questions.

MR. AXWORTHY: Economic ones as well.

MR. PARASIUK: Well, I think what you use, though, is the whole question of social accountin Who are the private beneficiaries and what are the extremalities in economics. What we have generally, in Canada is a situation whereby the social costs of peripheral development are, in fac largely being borne by the public. That is a very difficult nut to crack because the land that is availabl for development right now appears to be on the periphery. That is the land that the province hold right now in terms of what it could develop. If it is going to try and effect the market, it is going to hav to deal in that market to a degree.

In In terms of trying to tackle the questions that you are talking about, you are going to have t start looking at a whole set of policies which are federal, provincial and municipal in terms of trying t turn that development out from the periphery and back into the centre. CMHC for example, has a 2 percent forgiveness on loans given for pipe that is laid out in a periphery. That, in effect, is a type o subsidy for peripheral development. Any time you have lots being developed on the periphery yo are adding to social costs. The incremental cost is probably greater in terms of fire protection, polic protection, garbage collection.

If you look at some of the areas in the downtown area, or what might be called the old City o Winnipeg, you will find that there are some large areas that are owned by private people where the have a fairly low use for that land, stacking yards for lumber companies, etc. The taxation on tha property is such that these people can continue to hold that land in an undeveloped state eve though next to it you have servicing, even though you have fire protection, even though you hav garbage collection, even though you have police protection, even though you've already sunk mos of your social costs for that property. That's something that a province can't crack by itself, but it is a valid problem that you are raising.

MR. AXWORTHY: Well, Mr. Chairman, my intention was not to get into a global problem but mor to look at fairly immediate impacts of these developments. One is going to be a very substantia additional capital cost, say to the City of Winnipeg, for the major expansion of its transportatio services to deal with the south St. Boniface site and the question that I am raising is that, taking Mr Parasiuk's own analysis that the problem is one of continual extension further and further out, why i is that the province has decided to go along with that trend rather than using its own ability to ge higher density developments and to use the CMHC forgiveness for the $1,000 grant, 40-unit densit arrangements and things like, why didn't we do that kind of development as opposed to simpl continuing what is probably a bad practice?

MR. PARASIUK: Well, I think that that is being done to the extent that it is possible to do it righ w in the City of Winnipeg. There is a fairly intensive effort and there has been a fairly intensive 'ort to put housing downtown. It has often met with opposition from groups saying that this would her destroy neighbourhoods, that we should go slow and that has created some difficulties in 'ms of timing.

MR. AXWORTHY: Mr. Chairman, we're really talking about apples and oranges in this case, ough. We're not talking about public housing units, we're talking as the south St. Boniface site is in sign for basically different forms of private ownership. I am simply again wondering why the ioice was made for that particular style as opposed to doing something different with the site and a uch more substantial . . . The question I'm raising, and it has an implication beyond Leaf Rapids, it considering the province is really at this stage by admission of other ministers, not prepared to ovide any support for capital expansion and development in the city other than maintenance of dinary lines. The activities of the provincial agency is adding to its problems of capital, insportation, further extension of services and not solving the problem. That's the question I'm ising.

MR. PARASIUK: Well, in the case of West Selkirk, we're not really adding a large increments. In e case of south St. Boniface we may be adding large increments. Some of the infrastructure is ing ahead anyway. That infrastructure would have been put in place there. There has been a fairly ibstantial development in the St. Vital area between St. Mary's Road and St. Annes Road. There has en a great deal of talk about a possible development to the south of the land that is being developed / Leaf Rapids Corporation right now. This is a fairly large development that is being done with the ty, with the province and with Qualico Development, I believe. It's a much larger area than ours, just eyond ours. So if that development does, in fact, take place I think the incremental effect of our articular development will be somewhat marginal.

MR. AXWORTHY: Well, Mr. Chairman, I'm still not satisfied though that the development activities the Leaf Rapids Development Corporation are placed in some beneficial context of how the 'ovince wants to see the city itself developed. It strikes me more that it's a matter of where does HRC have a piece of land that we negotiate from it and put something on it, try to get the price low r those units themselves and I'm just very concerned. I would preface by saying that I think the idea f using a corporation to achieve objectives like that is worthwhile. What I am quarrelling with is that I on't see really that the objectives themselves that have been set are relatively minor and, in fact, are ot particularly beneficial from the point of view of the growth, shape and development of the city.

MR. CHAIRMAN: Do you have a question, Mr. Axworthy?

MR. PARASIUK: I wouldn't mind commenting on that.

MR. CHAIRMAN: The Chair is not anxious to provoke an argument or a debate between the hairman and members of the committee.

MR. AXWORTHY: Well, I will phrase this as a question then. Can the Chairman of the Board idicate to me if there is some development strategy in mind other than the one I described which oes see it fulfilling a role in terms of a kind of an urban development strategy for the City of Winnipeg i responding to its housing and its community growth needs?

MR. PARASIUK: Mr. Chairman, over the longer run we would like to be able to develop more land owntown. We, in fact, had discussions last year with the Special Projects Group of CMHC, which is ttempting to do a few developments in eastern Canada — two in Ottawa, the Woodruff suburb and e Breton Flats and one in Charlottetown. We were in very close consultation with them. We had iose people out to a meeting with ourselves, with MHRC and with the City of Winnipeg in the hope iat we might be able to initiate a demonstration project in western Canada, specifically in Winnipeg ecause there are fairly large areas of lowly used land in the old City of Winnipeg. Unfortunately, we eem to have broken down somewhat in that I don't know how quickly or how well that special project nit within CMHC is proceeding. I understand they've run into some snags and the type of follow-up iscussion that we envisaged last fall have just not taken place. But over the longer run, certainly we ould like to be undertaking more activity in more of the centre of the city.

MR. AXWORTHY: Mr. Chairman, a couple of other questions in relation to the role played by Leaf lapids. Do you see yourself in the future becoming the procurer of your own lands therefore and ypassing MHRC as acquiring land and developing and not going through MHRC at all?

MR. PARASIUK: That is a possibility. We haven't exercised that possibility yet, but I certainly think iat as our experience in dealing with the city environment increases, and as our expertise in doing iings right here in the city increases, we would hope that we might undertake some developments nd acquire some land directly.

MR. AXWORTHY: So, Mr. Chairman, in that case you could conceivably end up being a ompetitor with MHRC both for land and also for the style and nature of the development. Is that orrect, Sir?

MR. PARASIUK: I don't know if it would be competition, Mr. Chairman, it might be a omplementary activity to the type of thing that MHRC is undertaking.

MR. AXWORTHY: One further question' Mr. Chairman. Under the proposed amendments to the

City of Winnipeg Act, there is a power for the Crown and its designated agents to by-pass plann decisions made by the City of Winnipeg. Would Leaf Rapids Corporation be one of those designa agents, and therefore, would you be able to simply decide where, when and how you wanted to something and not be required to submit to those particular plans or by-laws?

MR. PARASIUK: Mr. Chairman, as yet we haven't been designated although I cannot conceiv an instance where you could, quote, "by-pass" to the planning procedures of the city, because y are talking about hook-ups, you are talking about a whole set of related activities which requi ongoing consultation throughout even though at some stage I could conceive of the province sayi "Well you know we've gone through a number of these hoops, we have in fact met a set requirements, at the same time we think that it is in the public interest to proceed even though y have not zoned this for a housing development downtown for example." I could conceive of th

MR. AXWORTHY: Just to confirm this, you would say that while you would follow the pro negotiations that normally is followed but when and if the city does not exceed to your own concer you would then be able to utilize that power to act as a designated agent and. . .

MR. PARASIUK: . . . I didn't say that.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: The member is asking Wilson Parasiuk whether he can do it. I would think, if I wou give him what little advice I can give him as a lawyer, if he would accept it or not, that the Lieutenar Governor in Council could do it, but Leaf Rapids couldn't do it. The Lieutenant-Governor in Coun could conceivably under the section as it is now written, if there were no amendments, designate L Rapids because according to the existing legislation they could do it, but I don't think Leaf Rapi could do it.

MR. AXWORTHY: Well I'm sorry, it was just a . . . Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: I just want to go back to the whole question of the 10 percent profit margin that y are trying to realize with respect to the ultimate sale of the land. When you purchase the land frc MHRC you're purchasing it at their cost plus all the interest charges, plus all the tenant charg related to the actual acquisition of land?

MR. PARASIUK: Yes.

MR. SPIVAK: As determined by MHRC? That is I mean as a purchase price, I recognize that, b there are also interest charges relating to it; there are developmental expenses, evaluation, and all t charges. So in effect what you're really talking about is a 10 percent profit after all charges have be realized.

Now, including the assessment of your charges? —(Interjection)— How are you going to asse your charges, that is, how are you going to apportion the charges of the Leaf Rapids Corporatio with respect to the actual development of the land?

MR. PARASIUK: Mr. Chairman, we have very qualified accountants who are able to handle dire cost allocation and indirect cost allocation, and that's just what they will do in the case of these tv developments.

MR. SPIVAK: You are then keeping a separate accounting procedure in relation to the to developments and in effect including all the charges, the indirect and direct charges, all the charg that attend in terms of the times of the people involved who receive salary, commission, or what ha you, or have their expenses paid, and that would be charged, and on that basis you are then going add your 10 percent.

MR. PARASIUK: Uh huh.

MR. SPIVAK: All right. In effect what we are really talking about, if the land stands at a $1,300,0 now, you're talking in terms of $8,000 a lot and how many lots per acre.

MR. PARASIUK: We are talking about a gross of 6.5 units per acre.

MR. SPIVAK: So 6.5 per acre for approximately 263 acres, and you're talking approximately a sa of $8,000 a lot, so in effect we are talking about land and all the other charges, of about $7,200 a lc The financing of this will be taken care of through CMHC and other funds that will have to be mac available for interim financing as well by yourself. And you've been assured by the government th that money will be available.

MR. PARASIUK: Yes. We have a capital supply of 8.525 $8.525 million.

MR. SPIVAK: And that capital supply is sufficient to take you through this whole procedure'

MR. PARASIUK: Well, it is sufficient in the first run for the next fiscal year.

MR. SPIVAK: I see. But that's not the total capital supply that will be required?

MR. PARASIUK: No. In terms of the total capital amount, it might be something higher in the ord of oh, $14 million.

MR. SPIVAK: About $14 million.

MR. PARASIUK: That's capital authority in terms of capital cash; we might require less than th because we will in fact be being paid for lots as the development proceeds.

MR. SPIVAK: What would be the interest rate that Leaf Rapids will be paying in connection with e moneys that will be advanced?

MR. PARASIUK: That varies from time to time. I can just check on what the rate. . .

MR. SPIVAK: In terms of average. How much less than the interest paid by the private sector for e comparable amount of money?

MR. PARASIUK: Oh, it's roughly the same.

MR. SPIVAK: You're saying that your going to be paying the same as the private sector is paying?

MR. PARASIUK: It's close to prime rate.

MR. SPIVAK: You think the private sector is paying the prime rate?

MR. PARASIUK: Well, it depends. It depends how much retained earnings they are using.

MR. SPIVAK: But in relation to land development by those who in fact are involved — what I am iggesting, there should be an ability to be able to produce this at a cheaper rate. I'm not questioning ›u on that. The only thing that concerned me was, the concept that 10 percent was a sufficient turn — which is the return that you're basing it on — when in effect, if I am correct, the private sector ould be involved in probably higher financial costs than you have, which would be one factor for the creased cost of the same kind of development and further, the fact that there would be income tax ıyable, which to provide the same kind of 10 percent return that you're talking about, realistically 'obably works out to a 20 percent return. So, that in effect really, the government's participation in ıis, which is to try and provide land cheaper and to provide for a type of housing now, but I would ssume in the long run for the future development of lots to be provided for developers at a cheaper ıte, comes as a result of your ability to be able to operate in a way that private corporations cannot ɔerate, and realistically to have the ability to be able to raise capital in a way that they cannot, and ıat these are pretty important factors in relation to the total cost. So that in dealing with it, when one ılks about 10 percent above the actual cost, one has to recognize that in dealing with it, you have to ɔmpare apples to apples in terms of what is involved in the private sector —(Interjection)— Well, e're not sure that they are going to succeed. We are not sure because . . .

MR. GREEN: . . . I won't be unhappy because the private sector wasn't able to have the same ɗvantages.

MR. SPIVAK: That's the old philosophical argument that we are going to have again, but the thing , I don't think, it's . . . what I'm concerned about is understanding that for private enterprise to work - well private enterprise does not work under these conditions, and therefore, in terms of comparing is really not a profit comparison and that's important in understanding what potentially can happen.

As an example, we'll go back to the hotel, private enterprise couldn't stay in operation at 30 ercent occupancy, not unless they had retained earnings from a lot of other areas.

MR. GREEN: What would happen is that they would have to sell out, they would have to take a loss nd a bankruptcy, and somebody else would pick it up and then he could continue.

MR. SPIVAK: And he'd probably lose money as well.

MR. GREEN: And then somebody else would pick it up. That's the way it goes.

MR. CHAIRMAN: Are there any further questions?

MR. GREEN: Until enough money had been lost, that somebody could pick it up and make a rofit, because all the money would have been lost.

MR. SPIVAK: Or converted to government office buildings.

MR. GREEN: No, we haven't done that. Are you putting in an application?

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: I've just got a minor point here, Mr. Chairman, for Mr. Parasiuk on this unaudited tatement to March 31st, 1977, the last page, Page 4 of the notes, No. 9, subsequent events. I'm just 'ying to follow this through. On April 14, 1977 the corporation created a wholly owned subsidiary ompany under the name Leaf Rapids Development Corporation (1977) Limited, the corporation ıeaning . . .

MR. PARASIUK: The Leaf Rapids Development Corporation.

MR. McGILL: Okay.Now, we go down to the next paragraph below it. On April 15th, one day later, ıe corporation received a certificate of an amendment of articles to change its name to, the orporation there means?

MR. PARASIUK: That is the Leaf Rapids Development Corporation, the old Leaf Rapids)evelopment Corporation is now the Leaf Rapids Town Properties. It has a subsidiary called the Leaf lapids Development Corporation (1977) Limited.

MR. CHAIRMAN: Mr. McGill.

MR. McGILL: So that in both cases, the corporation referred to in the two paragraphs means the .eaf Rapids Development Corporation?

MR. PARASIUK: Yes. The Leaf Rapids Development Corporation which in fact is now no more in erms of. . . The Leaf Rapids Development Corporation is now no more. It consists of two entities, nd this is for this fiscal year.

MR. CHAIRMAN: Are there any further questions? If not, shall the report be adopted? Mr.

Axworthy.

MR. AXWORTHY: Before it is adopted, I gather we have some chance to make a comment on i1 that correct? I just wanted to make one short comment that arises out of our discussions, and that the concern that I would like to express is that as we've discovered this evening that the governm has, in fact' brought about a substantially new and different Act in the development business in t province, and has done so, I wouldn't say intentionally, but without a great deal of declaration as to purposes and intents and activities. It seems to have happened by happenstance or it has happen maybe by design, but a design that was not clearly articulated by any government spokesman. Ar Mr. Chairman, I think when you're setting up a major Crown corporation like this, and getting it ir such an important activity, one that has such a vital impact on communities such as Selkirk a Winnipeg and points in between, that it would have been really incumbent to have made a mu clearer definition of the goals and objectives of that Crown corporation, and the kinds of ambitio the government has for it. Every so often something appears in the paper that there is a talk o satellite town somewhere and the name Leaf Rapids appears beside it, and no one knows, everyo assumes Leaf Rapids Corporation is something that runs something up in Northern Manito somewhere. And I think that really isn't the way to do business in setting up in effect a new Crov corporation, which is what we've done. In 1977 with these new layers patented, we in effect set up brand new Crown corporation with a very different function from the old Leaf Rapids operation, ve different function; have given it a substantial amount of capital; have given it some very significa responsibilities for the development of land, for the development to try to effect the housing mark for perhaps to have an even larger scale for getting into new community development. All this is rea happening without any . . . I cannot recall, Mr. Chairman, and I have been in here for four years, th any Minister of the Crown has ever stated that that was to be the purpose and goals of the Leaf Rapi Development Corporation. In fact, when one gets into discussions with the Minister for MHRC, i almost as if Leaf Rapids Corporation doesn't exist in their discussions. They talk about all their pla and ambitions, and their isn't a clear definition as to who's doing what in those, but it may be cle between Leaf Rapids and MHRC, that I can't tell, but it certainly is not clear in, I think, in the way it h been expressed publicly. I just think that is not a good way of doing business, and if we are going put the responsibility, which seems to have been put into the hands of Leaf Rapids, then I think really requires a much more extensive and comprehensive set of terms for this corporation, and clearer alignment of what we see its future purposes and activities being so that people would kno now what they've got. They've got a brand new government creature — maybe that's a word wi connotation — you've got a brand new government entity, I think is the proper word, in the field nov doing a much different kind of activity, and I think that we really were owed a much bett explanation. And I'm not criticizing the chairman, because I think we were able to elicit some of tho responses this evening. But it had to be done through this period of questioning, and not through th establishment of government policy or program in this area.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Well, Mr. Chairman, I think the honourable member tried everything he could to g the correct adjectives or the correct noun, a new entity, a new legal organization, a whole new anim or words to that effect. Maybe I can help them, like an octopus, maybe these are the terms that h wants. . . I'm trying to help him, orangutan, that's good too. There is, Mr. Chairman, nothing new th is being done. The arrangement was entirely internally administered. Last year the chairma appeared here. This Committee indicated that CMHC was paying them a fee for developing land i West Selkirk and St. Boniface I believe. —(Interjection)— MHRC. MHRC was paying the . . . I thin it's on the statement, and it was questioned and spoken about, and all of the things that m honourable friend now hears for the first time, were discussed last year. What has happened thi year, and I explained it, and it's entirely internal administrative — nothing has changed — is that was not working out well for MHRC to be acting as the hirer of Leaf Rapids to do the developmer work, and it was considered that it would work out better and more expeditiously if the land wer taken out of MHRC, transferred to Leaf Rapids, a proper receivable set up, and Leaf Rapids continu to do this work but not as the agent for MHRC, on its own. There has been no attempt to by-pas anybody. The chairman appeared here, and the information did not have to be elicited from him, h indicated that that is what they are doing.

So there is nothing new; there there is no new capital supplies. The capital supply that would hav been voted to MHRC to develop the lots in East Selkirk, will now be requested in the Legislature to b voted to Leaf Rapids. But nothing except an internal arrangement has changed. The setting up b Leaf Rapids of a subsidiary was done for a specific reason. We do not want the finances of the Lea Rapids townsite to be in any way raised or lowered by what the Development Corporation is doing because that would be a problem; if the West Selkirk property didn't work out as we'd like it to, Lea Rapids community should not have to pay for it. And that's what we've done. Hopefully the Lea Rapids thing, which I believe will certainly prove the benefit of having developed that townsit publicly rather than giving it to a private firm to develop, will not be impaired by another activity of thi corporation, which may not work out or may work out. We have had that kind of problem. So that i ıat the new entity is, but as far as the activities of the government, these were well known over a year o. The agencies under which they are being handled has changed. A year and a half ago the anged the Department of Renewable Resources from one Minister to another Minister and a new nistry was set up. All that has happened here is that something that was being handled by two ıvernment agencies has been transferred to one. It's like taking the CEDF out of the MDC, which .d to be done by legislation. Since we didn't need legislation for this, it was strictly an administrative ɔve. It was done in this way and I don't think that there was any attempt to sneak around and create ımething in a very dramatic form of way. Frankly, I am less happy with it myself because it means at a program which was previously under another Minister, with MHRC being the agency, is now ıder a Corporation which reports to me. And it's just more work, but the program that the ›vernment is indulging in is exactly the same.

MR. AXWORTHY: Mr. Chairman, I think that the Minister is probably aware of an old science here ılled evolution, and what he calls not being new, it's the same old thing I would say, has become ıite different, and that's my complaint. It has evolved into something quite different. I can recall very early, Mr. Chairman, that in discussions last year with the Minister of Urban Affairs, who was then sponsible for MHRC — (Interjection)— Well, let me finish. When I asked him specifically about what ıle did Leaf Rapids play in the development of the St. Boniface site and others, he said, "It is a ›nsultant." He said it was a consultant. Now there is a very clear dictionary meaning of the word ;onsultant." Consultant does not mean an independent and a relatively autonomous entrepreneur. was the assumption that MHRC would still be the centre and focus of responsibility in these areas ıd . . .

MR. GREEN: I have said nothing different.

MR. AXWORTHY: And the fact of the matter is that we now hear this evening that not only is Leaf apids now separate from MHRC, quite separate from it, and is undertaking these things on its own, ıt that it is also proposing, it's contemplating doing a whole range of other special projects in the əvelopment area. None of which I argue with specifically, but the fact is that they are doing them, or ɔntemplating them . . .

MR. GREEN: They indicated last year.

MR. AXWORTHY: . . . means that in fact the Crown Corporation has taken on a very different life ıd the Minister's own words say he is unhappy about it. It means I am unhappy too for the same ›asons, and that is because we are once again splitting and fragmenting responsibilities . . .

MR. GREEN: Mr. Chairman, on a point of privilege. Mr. Chairman, I wasn't unhappy about the hilosophy of the change, I was unhappy because it was more work for me personally, not because I bjected to what has gone on, but that it involves more work for me. So I don't want the honourable ıember to twist my words. That was the indication that I said about unhappiness; not that it is a bad hange.

MR. AXWORTHY: Mr. Chairman, I would say that the unhappiness of the Minister for his reasons I ıink would be an unhappiness shared by other people, in the sense that we are once again even ırther fragmenting responsibility for the responsibility in the housing, land development area. We ow have it not only concentrated between three or four Ministers, we now have a fifth Minister added ɔ the network. So that, in itself, I think, is going to lead to increasing confusion and that we are going ɔ have one more Minister responsible for one more small piece of the action. I would still come back ɔ my point, Mr. Chairman, I think when there is a great concern for the activities of different overnment agencies that, as much as the Minister may try to say that it is all the same as it was efore, I would suggest that it is quite different and that this is now a different type of Crown agency ıan it was two or three years ago. It has gone through several stages of metamorphose and it is now əally quite something different, and without arguing the merits of it, I think that that change should ave been one that was accompanied by a much clearer definition of its role worked out against the ıackground of a definition of the role that the province wanted to play in these critical areas of ıousing and land development, and you know that has never been done.

MR. GREEN: Well, Mr. Chairman, it is not new, it is not a change, and if the member were here ʋhen Leaf Rapids reported last year, Leaf Rapids indicated that they are going to act as a levelopment corporation, that they have a contract with MHRC and they are going to try to seek ıther contracts, and that they are talking about working with other private agencies in doing the kind ıf work they are doing now. But nevertheless, none of that has really materialized. What has naterialized is two projects that Leaf Rapids previously acted as agent for MHRC in, development deas and implementation, the government has found expedient to have it done by Leaf Rapids Development Corporation itself, rather than in dialogue with MHRC. That is the only change.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Mr. Chairman, I just want to add to what Mr. Axworthy said and to make just two ›bservations. First of all, Leaf Rapids Development Corporation (1977) Limited in fact it is going to be ı development agency in the housing field.

MR. GREEN: That's right.

MR. SPIVAK: That has been accepted now. We have MHRC in the housing field. I think that th really is a need —(Interjections)— Yes, in the Department of Co-op as well, you know, I think t there probably has been need, and there is a need now, for some clarification of the total governm program in some comprehensive way, and further, Mr. Chairman, I think that this is necess because I think that one should not be into the illusion that these corporations are really at arr length from the government; they're not, they're not. They're very much part of government poli Because they're part of government policy and because that policy is subject to change by whate Cabinet committees would be involved at any given time, I think it is necessary that at least th presentation be made properly, and that if in the years to come, Leaf Rapids Developme Corporation (1977) will be appearing here — and there is no reason to believe that it wouldn't — the think there may very well be the need for MHRC to appear before a Committee in the same way. that in effect what we really do is deal with the housing field and understand the total program that t government has undertaken with the accountability coming directly through the Minister for t policy statements, and through those who are heads of the corporation, directly to the Committ who have an opportunity of examining the policy statements . . .

MR. GREEN: I think that's a good idea.

MR. SPIVAK: I think that would be a direct improvement so that we will understand it more.

MR. GREEN: I think that's a good idea. I am certainly willing to be a proponent of that suggestio

MR. CHAIRMAN: Shall the Report of the Committee be received? Agreed and so ordere Committee rise and report. Committee rise.