



Legislative Assembly of Manitoba

STANDING COMMITTEE

ON

Public Utilities and Natural Resources

Chairman

**Mr. Warren Steen
Constituency of Crescentwood**



Tuesday, April 17, 1979 10:00 A.M.

**Hearing Of The Standing Committee
On
Public Utilities and Natural Resources
Tuesday, April 17, 1979**

Time: 10:00 a.m. .

CHAIRMAN: Mr. Warren Steen.

CHAIRMAN: Gentlemen, we have a quorum. Public Utilities and Natural Resources. Manitoba Forestry Resources.
The Honourable Mr. McGill.

MR. EDWARD MCGILL: Mr. Chairman, I'll introduce to the committee the Chairman of the Board and Chief Executive Officer of Manitoba Forestry Limited, Mr. Leifur Hallgrimson, who will present a report for the year ending September 30th, 1978, and make what preliminary remarks he feels appropriate.

CHAIRMAN: Mr. Hallgrimson.

HALLGRIMSON: Thank you, Mr. Minister. Gentlemen, I believe you all have a copy of our Annual Report before you for the year ended September 30th, 1978. This report comprises the financial statements of the Corporation for the said year. You will note that Mr. Ziprick, the Provincial Auditor, who is the auditor for this Corporation, has attached his certificate which certifies the financial statements without any qualification whatsoever. There is a short report at the beginning of it if it is your wish I could go through that and then answer any questions, perhaps update some of the figures in there because we have more current figures available from the time that the report was made.

CHAIRMAN: Mr. Walding, did you wish to lead off.

WALDING: Yes. The first page of the Report mentions that productions are on a twenty-four hour day; seven days a week. I would like to ask what the capacity of the paper mill is. I recall that during the Royal Commission's inquiries into it, there were various figures given for what the rated capacity of the mill was. Can I ask what the present production is either on an average or maximum basis and how it is rated?

CHAIRMAN: Mr. Hallgrimson.

HALLGRIMSON: Yes, Mr. Walding, the average production in the paper mill is 380 tons per day which works out to approximately to 128,000 to 130,000 tons per year. We maintain that level. I guess as it's now constituted, the rate of capacity of the mill would be 380 tons per day.

WALDING: I seem to recall a figure of 300 tons a day.

HALLGRIMSON: No, I think as it was constructed originally, the capacity was 350 tons per day, but modifications have been made and that's not unusual that capacity is improved somewhat. This has taken place in that case.

WALDING: And you say that you cannot fulfill the demand for pulp and paper?

HALLGRIMSON: We cannot fulfill the demand for our paper; yes, that's correct.

WALDING: What proportion of that production would be in pulp and how much in paper?

MR. HALLGRIMSON: Out of 130,000 tons, we produced last year approximately 12,000 to 15,000 tons of pulp.

MR. WALDING: I seem to recall at a previous meeting of this committee that you told the committee that most of your production was marketed in the U.S. Were you speaking of pulp and paper at that time or of lumber?

MR. HALLGRIMSON: I don't recall that particular statement. It would be more true of lumber than it would be of paper, although when we first started out, we might have sold something just over 50 percent in the U.S. but that's diminished as years have gone by to the point where — I could give you more up-to-date figures on that if you want.

MR. WALDING: That was going to be the next question: where is the pulp and paper marketed?

MR. HALLGRIMSON: Well, for 1978, the year under review, the domestic sales in Canada amounted to 55 percent of our production; 27 percent to the United States; and 18 percent to other offshore markets. One hundred percent of the pulp that we produced, which was 12,000 tons, was marketed in the U.S., so our domestic market predominates quite substantially.

MR. WALDING: And how much of that 55 percent would be used in Manitoba?

MR. HALLGRIMSON: Oh, a very small part. I would say that perhaps about 10,000 tons out of 60,000, which would be about 12 to 15 percent at the most. That's probably high. Most of our product goes to eastern Canada.

MR. CHAIRMAN: Are you through for the time being, Mr. Walding, that I can go on to others?

MR. WALDING: If you have others on the list, I'll . . .

MR. CHAIRMAN: Yes, I do. Mr. Hanuschak and then Mr. Ferguson.

MR. HANUSCHAK: Yes, Mr. Chairman, I have a few questions I wish to direct to the Minister responsible for ManFor. In view of the government's commitment during the last election campaign and as evidenced by its subsequent actions, and that is the commitment to strip itself of assets acquired by the people of Manitoba — we have seen some examples of that: Morden Fine Forest, the Lord Selkirk, just to mention a few — is it the intention of the government to deal with ManFor in a similar manner?

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, the position of the government would be that any potential interest in the firm, any offers of purchase would be considered. The determination as to whether or not the sale would then result would depend entirely upon the nature of the offer, and that of course would . . . I might say that there have been some enquiries from interested parties, request information, but I can tell the member that there have been no firm offers of purchase for the forest complex.

MR. HANUSCHAK: Could the Minister indicate, Mr. Chairman, whether the enquiries were from Canada, or from beyond the boundaries of our country?

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: I think I could say that the enquiries were generally from within the boundaries of North America.

MR. HANUSCHAK: From corporations operating only in Canada, or multi-nationals with offices based in Canada?

MR. MCGILL: Well, now, Mr. Chairman, this becomes rather difficult to pin down. The enquiries

at I am aware of would seem to me to be developing from corporations within Canada.

R. HANUSCHAK: Is the Minister actively seeking out offers to purchase in the same manner ; has been done with other Manitoba-owned corporations which were advertised and inviting offers purchase? Is the Minister searching for offers to purchase in the same manner?

R. McGILL: Mr. Chairman, I can tell the member that there have been no, to my knowledge, advertisements in papers advertising this complex for sale. I could simply tell him that when enquiries are received, that the government will endeavour to respond to them.

R. HANUSCHAK: Now, in view of the fact that the government, Mr. Chairman, is not being all at aggressive in an attempt to divest itself of this asset, could we assume, then, that this is one business enterprise, one corporation, which the government doesn't really mind operating, and likely will continue operating for some time.

R. McGILL: Mr. Chairman, the trends in the pulp and paper industry are at the moment in an upward direction, as Mr. Hallgrimson will indicate probably in his further explanations. We are rather pleased with the results that have been achieved during the past year, and of the indications of a strong market which is continuing into the current year, so that the ability of the company to compete, presently at least, is improving. The amount of employment which the operation provides The Pas area is, of course, an important consideration, and the resources which are available for the forestry complex are adequate — in fact, exceed that which is required to maintain the present operations.

R. HANUSCHAK: Well, Mr. Chairman, in view of the fact that the future for ManFor appears to be so promising, would the Minister then assure the people of Manitoba that the government will not dispose of this, what appears to be in the words of the Minister himself, a very valuable and worthwhile asset for the people to own and for the people to operate.

R. CHAIRMAN: Mr. McGill.

R. McGILL: No, Mr. Chairman, I couldn't give the assurance to the member that the government would not see fit if a very attractive offer came along to dispose of this operation. It might be that a potential buyer would see fit to expand the operation in which case we would be interested in what might accrue to the province in terms of increased employment.

R. HANUSCHAK: Could the Minister elaborate as to what he means by an attractive offer because the government's track record over the past 16 - 17 months in divesting itself the people's assets hasn't been all that good in terms of attracting attractive offers. And you know, the sale prices are taken for themselves. What does the Minister mean by an attractive offer, what would he hope to recover in order to . . . what would he consider an attractive offer?

R. McGILL: Mr. Chairman, I don't think this is the proper form to develop a detailed debate about what would be an attractive offer for The Pas Forestry, the ManFor's operations . . . the facts that we have not received a firm offer for the purchase of the company. Until such an offer is received, it is not possible to give specifics as to the kinds of terms or the amount of money that the government would consider a reasonable or attractive offer.

R. HANUSCHAK: Well, Mr. Chairman, if I just may clarify my question. Perhaps the Minister might think that I was seeking a precise price tag but I wasn't. And I realize that the Minister can place upon that asset at this time but could he in some general terms indicate to the Committee what he may consider as an attractive offer? Because we've seen some assets go for very low prices, for only a small percentage of the replacement cost. We've seen another asset go for only a small price of the inventory and the capital assets were thrown in for free as it were. Is it an offer of that kind that the Minister would consider attractive or would he hope to recover something more than that before he would consider it attractive and sell the asset?

R. McGILL: Mr. Chairman, I would not wish to be in any way specific ; to speculate on what would be an acceptable offer at this stage, would be in my view, a way of prejudicing any kind of future decisions that might be made. And the whole matter is quite hypothetical since we do not have in front of us any offers to purchase in terms that could be considered at this time.

MR. HANUSCHAK: Could the Minister then indicate to the Committee what are the guidelines criteria that the government uses in determining whether or not it will continue operating enterprise owned by the Province of Manitoba? What the Minister has indicated, up to this point is that if an attractive offer should come along, he would consider it. Does it follow, then, that it is the rationale that the government would apply to all its assets? For example, if an attractive offer for Manitoba Hydro would come along, that the government would sell it. If an attractive offer for the Manitoba Telephone System would come along, that it too would be sold. Is the attractiveness of the offer the only criterion that the Minister would apply in determining whether he will sell the asset or continue operating it, or are there other criteria?

MR. MCGILL: Well, Mr. Chairman, we're operating a forestry complex at The Pas. We will continue to operate the forestry complex until an offer from some private interest is received that we feel is worth considering. When such an offer is received, we will consider it. If we feel that it's not an adequate offer, we will reject it. If we feel that there are benefits to be achieved by the acceptance of such an offer, then it will be seriously considered.

MR. HANUSCHAK: The benefits? I'm sorry, the benefits to whom? Could the Minister explain what he means by benefits?

MR. MCGILL: Well, we're very mindful of the benefits which now accrue to the area of The Pas and in northern Manitoba generally, through the operations of this company. These are the benefits that we would want to see maintained.

MR. CHAIRMAN: Mr. Ferguson, followed by Messrs. Doern, McBryde and Brown. Ferguson.

MR. JAMES R. FERGUSON (Gladstone): Mr. Chairman, in the report it says that there is a possible shortage of saw logs, is this correct, Mr. Hallgrimson? From the memorandum . . .

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: I don't know whether I would classify it as a shortage. The fact is that saw logs that are available to us put a limit on the amount of lumber we can produce.

MR. FERGUSON: And you are having no problem moving the quantity of lumber that you are producing.

MR. HALLGRIMSON: That's right.

MR. FERGUSON: For example, the material for the pulp and paper.

MR. HALLGRIMSON: With the saw logs that are available to us, we are able to produce 55 million board feet of lumber. Now if we had more saw logs, we could have another shift on there, considering the overall needs of the complex, this is the amount of saw logs that are available to us.

MR. FERGUSON: How far would be the farthest point that you're hauling these logs?

MR. HALLGRIMSON: The furthest point would be from the common camp, which is close to Wabowden, and that would be about 150 or 160 miles, I think.

MR. CHAIRMAN: Mr. Doern.

MR. RUSSELL DOERN (Elmwood): Mr. Chairman, I wanted to really spend some time on the question of present markets and future projections. One problem apparently, years ago, brought into the Commission of Inquiry, was that there was an artificial and inaccurate wood cost of \$10 a cord. Could Mr. Hallgrimson indicate what price they're obtaining nowadays.

MR. CHAIRMAN: You mean, what the cost of our wood is, Mr. Doern? Is that what you mean?

MR. DOERN: Yes, and what your selling price is, if there is such a . . . I guess you can't . . .

re two too easily, but what is your cost per cord?

IR. HALLGRIMSON: Our cost per cord is something slightly in excess of \$60 per cord.

IR. DOERN: Sixteen?

IR. HALLGRIMSON: Sixty.

IR. DOERN: \$60.00. Now in regard to the question of markets, obviously the position of the anadian dollar has been a boon to the Corporation. One preliminary question I have is this, that you gave us figures of 55 percent of your produce is shipped to Canadian markets, and 27 U.S., 3 other, etc. Is any of that product shipped into the Canadian market, then trans-shipped to the nited States, or is that presumably all consumed in Canada.

R. HALLGRIMSMN: I would say that what is sold into the Canadian market is consumed in anada. But we have direct sales of our product, of course, into the United States, both in lumber and in paper.

R. DOERN: And what year and month did the plant actually commence operation?

R. HALLGRIMSON: When did our company commence operations? It would be in 1971.

R. DOERN: What month, roughly?

R. HALLGRIMSON: About March of 1971.

R. DOERN: Okay, now, let's just say that in the past eight years, you gave us the current figures; 55 percent of Canadian market, 27 U.S., etc., etc. What were they in the first few years, and how is this pattern been shifting?

R. HALLGRIMSON: I just have the figures back to 1975, and at that time our domestic shipments comprised about 51 percent, and that has moved up to 55. Our U.S. sales — this is paper — our U.S. sales in 1975 were 28 percent, and now they're 27 percent; offshore is 20 percent in 1975, and in 1978 it's 18 percent. So there's been a slight improvement as far as domestic sales are concerned.

R. DOERN: So you're saying these are paper figures. Do you have any other figures?

R. HALLGRIMSON: Yes, I have figures for lumber. In 1978, 40 percent of our lumber was sold on the local market in Manitoba, and 58 percent into the United States.

R. DOERN: And the other?

R. HALLGRIMSON: There's just 2 percent that goes into eastern and western Canada.

R. DOERN: So, when I look at these original figures you gave of 55 percent Canadian and 27 percent U.S., that was largely paper, was it?

R. HALLGRIMSON: Yes.

R. DOERN: I find that somewhat surprising, in that the American market has only expanded one percent. I think most observers assume that because of the Canadian dollar, we're significantly increasing our exports to the U.S., and bringing in some badly needed dollars, and so on. Now, why isn't it increasing by leaps and bounds?

R. HALLGRIMSON: The reason is that the domestic market is our best market. We still realize a better mill net on our Canadian sales than we do on U.S. sales, despite the premium on the dollar.

R. DOERN: Are you saying that you make more money on Canadian sales?

R. HALLGRIMSON: Yes.

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MR. DOERN: And, are you saying that therefore you don't actively pursue American sales, or you discourage American sales, or you're not interested in American sales?

MR. HALLGRIMSON: Well, to the extent that we can market it in Canada, we are of course interested in American sales, but we would still prefer to sell more in Canada if we could.

MR. DOERN: Well, maybe you're not concerned with American exports but some people are. Are you saying that if you increased your production, these ratios would still hold?

MR. HALLGRIMSON: Well, of course we are operating at optimum capacity now. In order to go further capacity we would have to modify our existing operation considerably, but within our capabilities at the present time this is how our product is marketed. It wouldn't benefit our company to reject sales or and purchases in Canada divert them to the United States at the present time.

MR. DOERN: Well, give me an example then of a unit of paper, a ton, or whatever. How much do you obtain for that product in Canada and how much in the U.S.

MR. HALLGRIMSON: Yes, it's been brought to my attention here some figures concerning the sale of paper. Of Canadian prime paper, the average is \$364.00.

MR. DOERN: That's for a ton?

MR. HALLGRIMSON: Per ton, yes. On U.S. prime, it's \$385, so there is a higher price, but mill net is lower because of the freight costs.

MR. DOERN: Well, what would happen if you increased your price to the U.S. to \$400 or better to have the equivalent amount of profit per ton? Would you be able to make the sales given the depreciated dollar?

MR. HALLGRIMSON: We might be able to make some sales but we would be over our market. We would be asking a premium for product which I would suggest in the long run would not be in our interest because we would in all likelihood lose that market as soon as the market conditions changed.

MR. DOERN: How much was the Canadian dollar worth in 1971 vis-a-vis the United States?

MR. HALLGRIMSON: I don't have that figure, Mr. Chairman.

MR. DOERN: Well, I'm just saying that I assume that in the last few years it's been close to at various times.

MR. HALLGRIMSON: It has and it has even exceeded that. I know that during that period since we've been in operation, it even went as high as \$1.10; \$1.09 or \$1.10.

MR. DOERN: So you say this is of no particular advantage to you?

MR. HALLGRIMSON: No. What? The premium on a dollar?

MR. DOERN: Yes.

MR. HALLGRIMSON: Oh, I would definitely say it was, but I don't think it's to the point where we would divert all our sales into the U.S. because of it. It certainly increases the mill net, up to two weeks ago, it would be about approximately 20 percent. Now it's down to about 10 percent.

MR. DOERN: Yet it would appear that in the last seven or eight years that your share of the market has been constant even though the dollar has gone down. It seems to hold about the same.

MR. HALLGRIMSON: Not our share of the market. These figures are not our share at the American

market; that's a very huge market of course.

IR. DOERN: A share of your production.

IR. HALLGRIMSON: Yes, that's right. Now, that's true it has gone down but in our view, it's more advantageous to develop the Canadian market in the long run than it is to develop the foreign market.

IR. DOERN: How do you account for the fact that you're operating at full production or you have three shifts or you're prospering? Why is there a big demand for your products?

R. HALLGRIMSON: Well, I don't pretend that we are different to anybody else in this respect. I think it's quite well known that the pulp and paper market has improved in the last year considerably and we're benefiting from that upturn like everybody else is.

R. DOERN: And why is there an upturn?

R. HALLGRIMSON: Well, I would say that the reason is the demand, the world demand or the demand in the United States; this has the effect of buoying all the markets up, and the situation is very tight down there and this has the effect of improving the situation in other markets.

R. DOERN: And again, this is not related to the American dollar and the Canadian dollar. You don't think it's a greater demand for your materials independent of exchange rates.

R. HALLGRIMSON: Well, I don't think we can ignore the discounted value of the Canadian dollar. Undoubtedly, it improves the mill nets on our shipments down there, so that it is a factor in producing a better return on the sales that we do make in that market. I wouldn't ignore it and say that it doesn't have any bearing on the situation.

R. DOERN: Can you compare your performance now with the way it was the last seven or eight years in terms of whether we're getting a bigger share of the pie when you're selling in relation to other Canadian pulp and paper companies in terms of your share of, let's say, the Canadian market? Are you getting a larger percentage increase or are you holding about the same?

R. HALLGRIMSON: I don't have those figures with me but I would say that our position has improved. We are taking a bigger position.

R. DOERN: Do you have any idea what share of the market you have in Canada; 10, 20 percent, 30 percent?

R. HALLGRIMSON: It depends on the type of paper you're talking about; the weight of paper. I would say that we have approximately 60 percent of the heavier grades in check stands; you know, the bags that are you use in carrying out your groceries from the supermarket. We produce perhaps 60 percent of that in Canada. Other grades, it would be lower. In multi-wall, our percentage there would probably be 35 percent or so; 30 to 35 percent.

R. DOERN: And for instance, let's say you're 60 percent share five or six years ago; what was it then?

R. HALLGRIMSON: I haven't got those figures; I'd have to get them for you.

R. DOERN: Would you assume it's been growing?

R. HALLGRIMSON: It's growing.

R. DOERN: Just a couple of minor questions and then I wanted to ask the Minister one or two. You have any projections on how many years of operation you can continue for, I mean for instance, how long the trees will last, do you have an answer for that?

R. HALLGRIMSON: Well, we have reserved to us an area of approximately 40,000 square miles. It has been determined that the allowable cut, the annual allowable cut, is about 900,000 cords

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a year, and that means that we could cut that in perpetuity. So in other words, we could consume that much wood and we would be guaranteed a supply for eternity, I guess. And we are using off that 900,000 cords, we're using about 350,000 cords per year. So there's no shortage of wood there, as far as our present operation is concerned.

MR. DOERN: Do you have a reforestation program?

MR. HALLGRIMSON: Not in the sense that we are planting trees, or anything like that; we are required to clean up the areas after we've cut the wood and the experience is that if you do this and scarify the remaining wood that's lying down that the forest does regenerate itself, and there will be a regrowth there. Considering of course the fact cycle there that ours is approximately 100 years for a tree to reach maturity.

MR. DOERN: Let's say in the province of Ontario or B. C., is it compulsory for pulp and paper companies to replant or are they subject to the same type of . . .

MR. HALLGRIMSON: I think they're subject to much the same type of a situation as we are. I don't say that there aren't some situations like that, but I don't think that it's like some of the situations you read about where there are tree farms and they in fact plant trees.

MR. DOERN: So you assume that by cleaning up the areas that nature will provide?

MR. HALLGRIMSON: Yes. And experience is that this does take place.

MR. DOERN: I wanted to just ask a couple of questions of Mr. McGill. I was just wondering he is familiar, or maybe Mr. Hallgrimson, whether he could indicate whether the Manitoba Forest Resources has any club memberships that might be of interest to the committee; for example whether they have a membership in the Manitoba Club or whether there are any larger business or social clubs that they belong to on an annual basis?

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, I think that's a question that Mr. Hallgrimson might like to respond to directly, being a decision that would be made by his own board.

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: In response to that, I can say, and assure this committee that our company has not at any time paid any membership or initiation dues in any private club in this province or in any other province. I would add that I personally belong to one club in this city and, although I am no longer a member of it, but during the time that I was a member I paid my own dues.

MR. DOERN: When you're conducting business — I assume you have people coming to the plant and you occasionally entertain visitors and buyers, etc. — is any of that entertaining done in Winnipeg?

MR. HALLGRIMSON: Oh yes, there would be some, yes.

MR. DOERN: Do you have an actual office here where you have a sales office in Winnipeg?

MR. HALLGRIMSON: We have an office here in Winnipeg and the sales forces are located here in both lumber and in paper.

MR. DOERN: And when people are entertained, etc., they're just taken to a variety of places opposed to a particular location?

MR. HALLGRIMSON: That is correct, yes.

MR. DOERN: So you don't find it necessary to have a membership in some well-established business club.

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R. HALLGRIMSON: I don't think it's necessary. It might, depending upon circumstances that might be advantageous to a member of a club, but it's not necessary.

R. DOERN: A couple of questions to Mr. McGill, Mr. Chairman. When I listened to the Minister scussing the future of the plant with my colleague, the Member for Burrows, I had a feeling that the Minister was almost hinting or reluctant to discuss the future of the operation in that there seemed to be the prospect of some interested parties or interested buyers. Have there been any feelers put out to the government by people interested in buying the plant?

R. CHAIRMAN: Mr. McGill.

R. McGill: Well, Mr. Chairman, as I mentioned to the previous line of questions in this connection, there have been some inquiries, some requests for information. And these, as they are received, have been responded to but none of these has up to this point resulted in any firm offer for purchase.

R. DOERN: And were these of the nature of partnership arrangements or buying in, in some conglomerate or outright purchase?

R. McGill: Mr. Chairman, as I indicated, they have not been firm offers. They have been more the nature of requests for information, upon which, presumably, the people making the request would perhaps in the future base some kind of further response. But I can't tell you that they proposed a joint operation or that they proposed any particular operation. They proposed nothing, they merely asked for information in respect to the plant itself.

R. DOERN: And has the government put out any feelers from its point of view? For instance, for this whole project got under way in the 60s, the government of the day, which was then the Roblin government, contacted some 100 firms to attempt to interest them in developing this project, and now that it's fully operational, I was wondering whether the Minister was going to attempt any similar moves, either by contacting a few companies or some mass appeals to see whether there are any interested buyers.

R. McGill: Well, that is a possibility, Mr. Chairman. The kinds of corporations that would be interested and who might have an interest in this particular operation are relatively few in number as I am advised. So it would not be too difficult an exercise to canvas that market; however, no aggressive undertaking has been initiated so far.

R. DOERN: Has the Minister had any approaches from the Thomson chain, which appears to have hundreds of millions of dollars available and is in the newspaper business?

R. McGill: Mr. Chairman, I don't know what the corporate involvements are of the Thomson chain, but none has come to my attention with the name Thomson attached.

R. DOERN: Would the Minister be interested in discussing with these dropouts who are looking to buy the Hudson Bay Company some wealthy Canadian corporation, well somebody will be a successful bidder and somebody won't. But we heard of Westons and Thomsons and . . . and BrasCan, they apparently have bags of money in the hundreds of millions of dollars. Is the Minister interested in pursuing any discussions with them?

R. McGill: Well, Mr. Chairman, quite frankly it hasn't occurred to me, it may have to others, but the Thomson chain or BrasCan might be interested in the Forestry Operations at The Pas. I suppose, Mr. Chairman, that is a possibility but it has not been one that has occurred to us up to this point.

R. DOERN: So the Minister is saying that if a buyer appeared he would seriously consider selling the operation?

R. McGill: Mr. Chairman, I think I said and I could repeat that if a serious offer to purchase, a firm offer to purchase were received the government would consider it.

R. DOERN: And although I will have an opportunity to ask the Minister this on another occasion, would he be prepared to sell the Telephone System under the same conditions?

MR. MCGILL: Well I suppose, Mr. Chairman, the kinds of ongoing public utilities such as Hydro and Telephones could quite clearly be put in a much different category than the operation of ManFo which began as a private operation and through a series of events became the responsibility of this government. The member would like to compare Manitoba Telephone System with the operation, I suggest that they are clearly not comparable.

MR. DOERN: Well could the Minister give us the benefit of his thinking on why he would not dispose of a telephone system or the hydro, on what philosophical or practical grounds would he tend not to sell them?

MR. MCGILL: I might mention to Mr. Doern that both Telephones and Hydro will be before the Committee at some future date with their annual reports. Perhaps that question could be better asked at that time and that we deal with the Manitoba Forestry Resources Limited Annual Report.

MR. DOERN: Well I'm just saying, I'm just wondering if the Minister could clarify his thinking for us. Maybe it's clear in his mind, I'm saying I have my views on why certain government-owned operations should not be sold and should be operated whereas others may be sold. I was just wondering if the Minister could make a distinction for us as to why he would consider selling certain government-owned companies and not others. Can he give us his basic principles?

MR. MCGILL: Well, Mr. Chairman, I am aware of your ruling with respect to this line of questioning but I could respond very briefly if I'm not ignoring your advice on this matter. The two utilities to which the member refers have some very unique qualities, not the least of which are their delivery systems which lend themselves entirely to a monopoly kind of operation and without going any further than that, the difference between those two utilities and the forestry resources operations are very apparent.

MR. DOERN: Well then I would leave the Minister with a final question and just ask him if he would care to categorize the Liquor Commission in view of that dichotomy.

MR. MCGILL: Well now the line of questions is changing direction very subtly here and the member is referring to a possibility of some different retail outlets but it seems to me that we are not talking about the Liquor Commission as one that would change essentially in character. I'm sure the member is referring to the suggestion that there might be some merit in providing more variety of liquor outlets but the reference to the Liquor Commission, I think, is somewhat different to that.

MR. CHAIRMAN: Mr. McBryde, to be followed Mr. Brown and Mr. Walding. Mr. McBryde.

MR. RONALD MCBRYDE: Mr. Chairman, Mr. Hallgrimson, I wonder if you would just review the cyclical swing in the pulp and paper market. Is there a pattern in terms of the number of years and we're just getting into an upswing now? But is there a pattern so that we might be able to predict when the next downswing in this market will occur?

MR. HALLGRIMSON: Mr. McBryde, I don't think that you can predict just how the exact occurrence or the development of the cycle and its upswing with any certainty and I think the only observation I would like to make is that, you know, you can be rest assured that it is a cyclical industry; despite prosperous times that sooner or later it's going to go into a down turn. Just to review what has taken place since this company came into existence and our operation in 1973, that was a high point at that particular time 1973 and that at the end of 1974 it went down into what we understand to be quite a prolonged depression because from 1975 to 1977, things were at a very low ebb. And in 1978 they started to pick up again and appear to be on the upturn for the present at least, so other than that I really can't say anymore. I guess if I could I would be an economist or something.

MR. MCBRYDE: I asked the question basically is whether there is a discernible pattern. Is it a five year pattern or a . . .

MR. HALLGRIMSON: I would say no, based on what happened in the last three or four years because that was a rather prolonged one. I think prior to that some of the downturns weren't that long duration.

MR. McBRYDE: What's happening in the industry now? Are there new mills coming on stream at this time or are they new mills in the planning stages or what? I think that some came on stream during the down period that were planned during the previous period of high sales. What is the present situation?

MR. HALLGRIMSON: Well the present situation in that regard and you have hit on a very good point, what may be different now is that there isn't all that much new capacity coming on. The reason for this being of course, that the cost of these facilities now are really exorbitant. I think there is only one mill that has come on in the last two or three years, a new mill, and that is in the province of Quebec, which is a pulp mill and that mill cost about \$300 million. I think when you get to that stage of an investment, then it becomes very difficult to justify such an investment even when the market is at a very high point. But they were very fortunate in that they've come on stream just within the last six months or so. When they came on their timing was very good. But that is a feature now of this whole question that there isn't that much new capacity coming on, and in fact there's a contraction there of some mills that are moving out of fields and upgrading. The practice now seems to be that rather than try and embark on some ambitious programs, mills are upgrading their position and spending somewhat less but trying to improve their situation, and therefore upgrading products and getting out of some fields into others.

R. McBRYDE: Who is your competition in the heavy paper and the paper bag market?

R. HALLGRIMSON: At the west coast there are two mills, much like ours; one at Prince George and the other one at Kitimat. These two mills, though, are mainly orientated towards the export market. They are not that deeply involved in the domestic market. Crown Zellerbach have a mill; they do produce some brown paper. In eastern Canada, Domtar and Consolidated Bathurst produce some paper, but not all that much in the heavier grades.

R. McBRYDE: What is the convertibility to go into other kinds of paper production, that is to switch emphasis from the heavy paper and the paper bag into newsprint or other types of paper? For one for our mill and for the other mills, I mean, can they switch if the market is better in newsprint, switch into newsprint? And if the market is better in heavy paper for the bags, can they switch into bags, or is it specialized so that it's hard to switch back and forth or switch into other lines of production?

MR. CHAIRMAN: Mr. Hallgrimson.

MR. HALLGRIMSON: It's specialized. We couldn't produce newsprint without extensive modifications, it would be virtually a new machine. It's a different machine that's involved. So you're pretty well locked into a particular product. Similarly, a newsprint machine does not produce Kraft paper.

MR. McBRYDE: My colleague was asking about the U. S. market, etc., and the question that occurred to me was, how important during this period when there is a market is to keep certain customers satisfied so that when the market goes down that you still have those customers and you're not as seriously affected by a downturn in the pulp and paper industry.

MR. HALLGRIMSON: Well, there's no question; of course, you develop relationships with customers and this results in continuing business with them. Of course, if there is a downturn there's a drop in the demand in their needs, so that therefore their orders go down somewhat, but you have goodwill in the trade and you perform well and produce a good product and are reliable in what your undertakings are.

MR. McBRYDE: So it wouldn't be wise to quickly switch around if the U. S. markets suddenly get better, because it might be short-term as opposed to a long-term opportunity. Switching to the lumber market, how does the cycle of the lumber market compare, I mean the lumber market is down at the same time that the pulp and paper market was down, but I think it came up sooner. And how do the cycles compare or are they totally different?

MR. HALLGRIMSON: Well, I think they are somewhat different. They don't always necessarily coincide. When you talk of the lumber market, the important factor is the number of housing starts, especially in the United States. This is the predominant market and last year I think the housing

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starts there reached a high of something over 2 million units, 2.3 or 2.4, I think. Of course the number of housing starts depends to a great extent on availability of mortgage money and the interest rates, which are at currently high levels and there has been a drop-off for the month of February. That's the last figures I'm aware of. January and February, whether that will continue or not is another question, but if it does then undoubtedly the lumber market will deteriorate as far as . . .

MR. McBRYDE: Even though 40 percent of your lumber sales are in Manitoba, I'm assuming that the Manitoba housing starts and the drop off in construction in Manitoba doesn't seriously affect you because the competition is selling in the States, so that leaves that market; that is if the housing starts are high in the U. S., then it doesn't hurt your Manitoba market that much because you can get a bigger share of it because your competition is selling to the States instead of to Manitoba.

MR. HALLGRIMSON: I'm not quite sure that I . . .

MR. McBRYDE: Okay, has there been a change in your Manitoba market over the last few years?

MR. HALLGRIMSON: Has there been a change?

MR. McBRYDE: Has your lumber sales gone up or down in the last few years in the province of Manitoba?

MR. HALLGRIMSON: I would say that it's been relatively stable, you know, that the market price of lumber is really determined by the U. S. market. If the market is high, then producers will shut down there.

MR. McBRYDE: Of course.

MR. HALLGRIMSON: And will raise their prices locally.

MR. McBRYDE: That's what I was trying to say but I don't think you understood. You mentioned at the start that you might be updating some of these figures we have here. Have you still got some you would like to update for us?

MR. HALLGRIMSON: Yes, I can. When I prepared this report, the last figures for the current year were for five periods ending the 17th of February this year and now we have another period as the cash profit by which we mean not taking into account interest and depreciation, is now at \$2 million. It went up \$800,000 in this last period. So the favourable trend continues and I would expect that unless there is some sudden downturn in either lumber or in the pulp and paper market, that we should have a cash profit probably close to \$6 million.

MR. McBRYDE: So you're going to go from a cash loss to a cash profit?

MR. HALLGRIMSON: Yes, an improvement of probably \$5 to \$6 million.

MR. McBRYDE: That's your projection if everything holds the way it is?

MR. HALLGRIMSON: Yes.

MR. McBRYDE: Are there any other figures that Mr. Hallgrimson wants to update?

MR. HALLGRIMSON: No I haven't. That is the only reference to the current situation.

MR. McBRYDE: I wonder if Mr. Hallgrimson would care to clue me in on the present situation with fence posts; ManFor.

MR. HALLGRIMSON: Well, as you know that plant has been closed down for approximately years or more. It is still closed down and we have no intention at the present time to reopen it.

MR. McBRYDE: What has happened with the inventory that was there?

MR. HALLGRIMSON: The inventory has been disposed of, to a great extent I think.

MR. McBRYDE: In the later production, what you've been saying this morning is that with present market conditions and the sustained yield of the 900,000 cords per year possibility in the north, that there is an opportunity if someone wished to take it, and I think the Minister said the same thing, to expand capacity at The Pas. Is that under any serious consideration now, and what would be the logical kind of expansion? Are there some modifications to existing plant that can change the capacity significantly, or does it have to be a major addition to existing plant to alter capacity?

MR. HALLGRIMSON: Yes, as I indicated the source of wood fibre would be sufficient as far in excess of course what we're cutting at the present time, so that it would support a doubling in capacity. That would bring us to about 700,000 cords per annum. An expansion could take the form and it would take many directions. We have the capability of producing either pulp or paper. The existing operation could be converted to a pulp operation, market pulp, by adding a bleach facility, but without getting into another machine. If you get into another machine, you're talking an excess of \$100 million. I don't know what figure you could put on that. It might be in the area of \$40 million or so to convert it to a bleached pulp mill. If you're talking about something more ambitious, then you're talking about another machine that could be a newsprint machine, it could be a pulp machine, it could be anything. I wouldn't think it would be another kraft paper machine. It would be wise to have diversification, so then as far as your question as to whether we are, we haven't actively studied that.

MR. McBRYDE: The board hasn't looked at those possibilities in the last few years.

MR. HALLGRIMSON: No. But I would think if any purchaser, he would look at something like this.

MR. McBRYDE: I wonder if I could get some update from you, some clarification in terms of the employment situation, just a quick review of the numbers of people, but more I think of concern right now because of the provincial government reduction in employment opportunities and INCO cutbacks, the hiring at ManFor, what is the turnover and what are the new hires, and of those new hires are they coming from northern Manitoba or southern Manitoba or outside of Manitoba together, and related to that too would there be — I don't know if you have any figures in that regard — whether they would be native persons or not?

MR. HALLGRIMSON: Well, I can give you for 1978 the levels of employment. The high is 1,107 and a low of 887. The low periods would essentially arise out of reduced activity in the Woodlands division, depending upon cutting and hauling of wood. This is much the same as it has been in the past. As far as the rate of turnover, I don't have any figures on that. I could obtain that for you.

MR. McBRYDE: Do you have a further breakdown in terms of mill, sawmill, woodlands, and Manfor woodlands contracted?

MR. HALLGRIMSON: Yes, do you want those figures?

MR. McBRYDE: Yes, if you have them.

MR. HALLGRIMSON: In woodlands, our own forces, a high of 264 and a low of 244; contract, a high of 210 and a low of 51.

MR. McBRYDE: And sawmill and mill?

MR. HALLGRIMSON: Pulp and paper, 370 high; a low of 346. Sawmill, 226 high; a low of 217. Paper machine plant, a high of 17 and a low of 16. In the construction division, there are 8 employees, a high, and a low of one. In real estate, there is one person. In corporate there is a high of 11 — there are 11 people throughout the year.

MR. McBRYDE: The corporate is your sales staff in Winnipeg, and yourself?

MR. HALLGRIMSON: No, there is myself; we have some corporate staff that apply to all divisions. There is a comptroller and a corporate purchasing manager and a corporate industrial relations manager, myself, and a director of finance, and then there is a traffic manager. This is what we refer to as the corporate. But the sales staff would be included in the divisions.

MR. McBRYDE: You mentioned real estate. What does ManFor have left in terms of real estate?

MR. HALLGRIMSON: We have five apartment blocks and approximately 20 housing units. There are 24 suites in each apartment block.

MR. McBRYDE: I wonder, Mr. Chairman, if Mr. Hallgrimson would get me some figures on the earlier question I asked and maybe send them to me at a later date, in terms of the turnover and the source of new employees, whether they are northern Manitobans, or Manitobans, or Canadians or offshore or whether they are Mexicans.

MR. HALLGRIMSON: I would have to undertake to provide that information to you. I think you mentioned something about native employment. We of course do not keep records of people's ancestry but our best estimate is that approximately 30 percent of our work force is native.

MR. McBRYDE: That estimate would probably vary depending on section, quite considerably, with sawmill being high and . . .

MR. HALLGRIMSON: The sawmill has a high level of native employees.

MR. McBRYDE: The other question, I wonder if your indicators of labour-management relations do you have figures in terms of grievances, walkouts, etc.? My general impression is an improved labour-management relation over the last couple of years and I wonder if you have figures that would bear out my assumption on that?

MR. HALLGRIMSON: I don't have any figures with me but I would agree with you. I think our labour relations at the present time are quite good. We have grievances of course and we have arbitrations but other than that, I think things are in pretty good shape.

MR. McBRYDE: In light of that question and answer, it is, I suppose, encouraging, and that the board should probably receive some congratulations in management, at a time when labour-management relationships, following an attitude set by the provincial government, a worsening, that that particular operation, a Crown corporation, the labour-management situation seems to be improving. I think that's an encouraging sign.

Mr. Chairman, the other question relates to the woodlands division, and I wonder how the figures are stacking up in comparing Manfor woodlands, Manfor cutting operations, and contractor cutting operations. One, is Manfor using that as a yardstick to help measure their own efficiency and effectiveness; and secondly, how does it compare in cost per cord between contracting out and your own cutting operations?

MR. HALLGRIMSON: I don't know whether I have any breakdown of that cost. Undoubtedly we use our own cost as a factor in determining what we pay independent contractors. We certainly wouldn't pay anybody any more than what it is costing our own operation. It is difficult to compare the situations because even if there are private contractors, we still incur the costs of opening the area, the roads and matters of that nature, so it isn't always that easy to compare them. We basically try and encourage as many contract operations as we can get. We would prefer to have more contractors than we do have — the big one of course is Moose Lake, the biggest independent contractor there.

MR. McBRYDE: One advantage of having contracts on a fairly similar basis is that assist management to determine their effectiveness in terms of their own operation, to compare it with outside. Of course that comparison would break down if you have non-union contractors. Do you have any non-union contractors still in the woodlands division? I know it is required within the Manfor cutting area, the terms of the agreement. I understand there was a non-union cutting operation outside of the ManFor limits that was supplying wood to ManFor.

MR. HALLGRIMSON: As you have pointed out, of course, on our specified area, our collective agreement provides that the independent contractors have to adhere to the union contract. I'm not aware of the situation you mention; could very well be. I think there was some wood purchased on the Duck Mountains and we entered into that arrangement because the wood there was larger and we were getting a higher percentage of saw logs. But outside the area, I don't know that we should be delving into the affairs of our supplier, if he is not unionized. That is a matter between him and the unions, not us. We can't control that.

MR. McBRYDE: It relates to you in the sense that what action does the union take when you go outside and use non-union help? It has a very direct relationship then to your operation, if the union made a decision to take some action because of your action.

In the contracts with Moose Lake and Mistik Creek, I assume it is still in operation even though it was sold by the government; I'm assuming they are still producing. Have those quotas been increased, or the amount that you are willing to purchase from those people changed now that the market is improved?

MR. HALLGRIMSON: Well, I can't speak with certainty about Mistik Creek, but Moose Lake, we are looking to them for more wood this year and in the future. It is an area that we would hope to cut more wood in in the next few years and therefore we are looking more to Moose Lake to provide that.

MR. McBRYDE: In the past there was always a limit up to a certain amount you purchased from them.

MR. HALLGRIMSON: It is negotiated each year but I'm saying that the volumes, in the present contract, would be much higher than it was a couple of years ago.

MR. McBRYDE: Would it be higher than they are probably capable of achieving at this time?

MR. HALLGRIMSON: I don't know. I would hope that when we enter into a contract we use our good judgment in that regard, and in that way we expect that they would be able to do it.

MR. McBRYDE: Could you just summarize for me the present situation of your hauling operations, who is doing the hauling? That is, is it all local truckers who have one or two trucks or are there still any large contracts with outside trucking firms and is ManFor in any hauling itself?

MR. HALLGRIMSON: Well, to answer the last question first, we don't do any hauling ourselves. I would say that essentially the hauling of ground wood is done by local truckers of varying sizes. I guess some have prospered and have two or three or four trucks, others have one truck. Essentially it is done by local truckers. I don't know of any large outside firm in there.

MR. McBRYDE: It has been two or three years, I think, since you have had an outside contractor. What is the present situation in terms of the owner-operators of skidders? Are you encouraging people to move in that direction?

MR. HALLGRIMSON: Yes.

MR. McBRYDE: Is the union starting to represent owner-operators or has that not been negotiated yet? I understand that part of the strikes in Ontario relate to that particular issue so I wonder if you could just sort of clarify exactly what the situation is at ManFor and where it is moving.

MR. HALLGRIMSON: Of course out in the woodlands we have also always been on a piecework basis; we have never had hourly workers cutting except, I think, with some larger machines, it may have been in that area. But essentially, the cutting is on a piecework basis. We have encouraged these cutters to own their own skidders and have helped finance them as we feel and find that is a much more satisfactory situation to have them owning the skidders.

MR. McBRYDE: At the last spring annual meeting of the Woodworkers Union, the IWA, the issue was related to negotiating for the machines or machine rates. Has that come about now?

MR. HALLGRIMSON: No, that would be outside, it wouldn't be negotiated by the union.

MR. McBRYDE: And this time it is not? "

MR. HALLGRIMSON: No, I don't think there's been any change in that respect.

MR. McBRYDE: Mr. Chairman, then I've a couple of general questions to the minister responsible. The Conservative government has appointed one person from The Pas, one resident of The Pas I think, to the board. Is there any consideration being given at this time to increasing board members from The Pas or The Pas area?

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Well, Mr. Chairman, I think the question of regional representation is not one that the government has concerned itself with. The appointment to which you refer, I believe, was made about a year ago, and when appointments are made from time to time, the question of the contribution that individual members or candidates or people who might be willing to serve on the board, would be considered as well as their area of residence.

MR. McBRYDE: The minister or to Mr. Hallgrimson. There was consideration being given at one time to the possibility of having an employee or employees on the ManFor Board, similar to what has happened in one Crown corporation, similar to the type of operation in British Columbia, and I wonder if that is still under consideration or that idea has been abandoned?

MR. MCGILL: Well, Mr. Chairman, I think perhaps I'll refer that question to Mr. Hallgrimson. I know that that is a subject that has come up before, and that some research has been done on it - Mr. Hallgrimson.

MR. HALLGRIMSON: Yes, I think it goes back two years or so. At that time this was discussed and in fact there were meetings with the employees, but nothing has transpired since that. It's not under active consideration at the present time.

MR. McBRYDE: Thank you for your answer. To the minister then, the questions that my colleague asked in regard to the possible sale of ManFor, the possibility of offers being considered. I wonder if the minister could just give us some indication that if that eventuality ever came to pass, and I'm personally fairly doubtful that it will, but if that eventuality ever came to pass, I wonder if the minister could give us some assurance that the same thing wouldn't happen to the ManFor operation as happened to other operations that this government has sold, that have actually ceased operation and is no longer functioning, no longer provide employment. A couple of these and smaller ones in Northern Manitoba, then of course the Lord Selkirk. I wonder if the minister could give us some indication whether part of his consideration when he said whether the offer was acceptable (reasonable or whatever, would be a guarantee in terms of operation, whether he would even go further because of his previous comments, whether he would say that they might consider an offer to purchase, if in fact expansion was involved. I wonder if the minister could give us some indication of what his thinking is on that. Might that be a condition, that expansion would have to be involved. Would there be a guarantee or part of the purchase agreement that in fact the operation would have to continue at its present level?

MR. MCGILL: Mr. Chairman, it's very difficult to respond to the hypothetical situations that the Member for The Pas describes here. As I said, there have not been firm offers received. I have also said that the employment levels in The Pas area, and the number of jobs provided by that operation is an important consideration. I think to get into the hypothetical and the possibility of any firm offer to purchase being made by somebody, who had intentions of shutting down the

so remote as to be almost not worth considering. The value of such a plant is a fairly important amount of money, and I can't conceive of anyone simply making a purchase with the idea of shutting down the operation. This would not be consistent with our basic interests in the provision of jobs and employment in The Pas area.

IR. McBRYPDE: Yes, Mr. Chairman, the reason I asked the question and I'm very pleased with his minister, even if he stands alone with his concern about employment in Northern Manitoba, because certainly the operations that have been sold off, have closed down, were the small northern operations that employed native people from remote communities. And those operations have been sold, and there doesn't seem to be any criteria involved, and that's what I'm concerned about, that the government is making basically political decisions without criteria involved. In one case, the operation had made a profit for the last two years on an operational basis, and in fact returned a profit to the province on sale, and that profit was just put into general revenue and not reinvested in employment creation in Northern Manitoba. In the other case, it was a subsidized operation. It was sold off, and it just closed down because the people that bought it, it didn't seem feasible for them to operate any more with a loss of jobs.

Some of the others that have been sold off continue to operate, like related to ManFor Mystic Creek Logging Operation. I understand it's continuing to operate, and that's a good sign. It's providing the employment and it doesn't matter to me whether it's a government operation or a private operation, as long as reasonable employment is provided in Northern Manitoba. So I'm pleased that that's one criteria that the minister wants to consider is the continuation of employment in The Pas area, and I would like to get him to urge his colleagues to have that kind of consideration as well.

But the other criteria, the only criteria that I can determine from the sales that have taken place so far, seem to be political criteria. If the operation was started under the NDP, then it's to be sold off, and if the operation was started when the Conservatives were in office, then it's to be kept.

With the Lord Selkirk being an exception to that because the government was satisfied enough that somehow the NDP were labelled with that operation that they could sell it off. I think the political criteria in the case of The Pas would be different because people still connect the Churchill Forest Industries with the Conservative government, and therefore the likelihood of selling it off is much less because there's no political mileage. And I would ask the minister once again if he would consider at least outlining some minimal criteria on which a decision would be based, or whether there in fact is no such criteria, and they'll just await an offer and then perhaps establish some criteria, or make it a political decision at that time?

R. McGILL: Well, Mr. Chairman, again when a firm offer or firm offers are received, they will be considered in a serious and in a very regular fashion, and I have pointed out to the member that we are anxious that the operation be continued, and if an offer were received from some potential purchaser that indicated that employment would not only be maintained, but might in the future increase, that, of course would be a factor that would weigh in favour.

R. McBRYPDE: I want to, Mr. Chairman, thank the minister for his answer and thank Mr. Hallgrimson and the ManFor Board and management because this particular operation of course is critical to The Pas region, and it must function effectively and it must continue its operation. So, thank you to the gentleman in front of us.

R. CHAIRMAN: Mr. Brown, to be followed by Mr. Walding and Mr. Doern.

R. BROWN: Well, Mr. Chairman, most of the questions that I was going to ask already have been asked and have been answered. I would just like to go a little bit further into the cash profit picture. We had an updated figure here of \$2.6 million, but did I understand Mr. Hallgrimson right when he said that this did not take into account depreciation and interest.

R. HALLGRIMSON: Yes, that's correct.

R. BROWN: So both of those would be substantial amounts of money, I presume. Taking depreciation and interest into account, do you still feel that you would be coming up with a profit statement at the end of the year?

R. HALLGRIMSON: Mr. Brown, in order for us to show a profit after interest and depreciation, we would have to have a cash profit of about \$10 million. The depreciation amounts to about \$5

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million and the interest is between \$4 and \$5 million a year. So I think things would have to improve considerably before we could get to that stage. I think our interest and depreciation compared to other companies is very high, considering our production. The figures here which, I think, are rather pertinent in that regard . . . as a percentage of sales, our interest expense is eight percent of the sales compared to Abitibi 1.8 percent, Domtar 1.4 percent, Consolidated Bathurst 3.1 percent, and Donahue Limited 1.6 percent. The depreciation as a percentage of sales in our case, is 9.6 percent and these other companies that I referred to are roughly in the range of three to four percent. And if you take the two combined, our interest and depreciation is 17.6 percent of sales, compared to 4, from 4 to 6 percent. So I think we have a burden, which I don't think is normal and I think it would require a rather good year in order to cover that. We did cover it one year, in 1974, and if things continue it might well be every year, but I think in normal times that it would be impossible to generate that much cash flow, considering our productive capacity.

MR. BROWN: Well, thank you, Mr. Chairman. I just wanted some clarification on that point. I would just like to say that I am very pleased that things are looking quite a bit more favourable than what they have in the past, and hopefully this trend is going to continue.

MR. CHAIRMAN: Mr. Walding.

MR. WALDING: Thank you, Mr. Chairman. I believe Mr. Hallgrimson indicated in answers to previous questions that the market for our pulp in the U.S. is very strong at the moment and that there is a high demand for it and no difficulty in selling it at all. I believe you indicated to the Committee on a previous appearance to us that your American sales were dealt with by an agent. Are you still dealing with that same agent for pulp sales in the U.S.?

MR. HALLGRIMSON: Yes, Mr. Walding. We have an agent who effects our sales, both in pulp and paper.

MR. WALDING: Does he also handle your lumber sales in the U.S.?

MR. HALLGRIMSON: No, they do not. The company that handles our pulp and paper is a concern by the name of Price and Pierce that are quite well known. They are not in the lumber business. We sell our own lumber in the States from Winnipeg.

MR. WALDING: I see. Have Price and Pierce developed what I might call "regular" customers for your pulp and paper in the States or do they sell it on a sort of job lot basis from time to time, wherever they can sell it?

MR. HALLGRIMSON: No, essentially I would say that they have developed customers, regular customers. We probably have about 10 customers in the States.

MR. WALDING: That being the case and the market being so strong, why do you not sell direct to the purchasers? Why do you go through a middleman and pay him commissions and . . . ?

MR. HALLGRIMSON: Well, the problem there is that of course it isn't always this way. You know just maybe two years ago we were having difficulty in selling our product down there, and you just don't dump agents overnight. I guess if we were satisfied that it was going to continue indefinitely there wouldn't be any point in it. There is one feature, as far as they are concerned, though, that we assume the credit risk and we collect simply from them rather than from the customers. I essentially would say, in response to your question, that, yes, perhaps right now we could I think it could very well be in two or three years' time or even sooner that we might need the services of somebody to market.

MR. WALDING: Is that under consideration by your Board at the moment?

MR. HALLGRIMSON: No, it is not, but it's something that we would keep in mind. We had agents in Canada at one time and we changed over to our own sales staff.

MR. WALDING: I noticed somewhere in the report you listed sales costs, that one of the costs was duty. Is there duty on pulp, paper or lumber going into the States?

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MR. HALLGRIMSON: There isn't on pulp but there is on paper — 4 percent.

MR. WALDING: And on lumber?

MR. HALLGRIMSON: I don't think there is any on lumber; I'm not quite sure of that. I can't remember just off the top of my head. I don't recall now what the situation is with respect to lumber.

MR. WALDING: What would account for the amount of \$700,000 in discounts for the year, Schedule 1?

MR. HALLGRIMSON: Well, here in the U.S. certainly there is a cash discount for payment within a certain length of time. Yes, there is a discount allowed in the States. There is some allowed in Canada, too.

MR. WALDING: That's for the payment of accounts within a certain time . . .

MR. HALLGRIMSON: Well, there are some volume discounts, too.

MR. WALDING: Oh, I see. Okay. Now, I wanted to ask you about other answers that you had given to the Committee this morning. I think you said that there were 900,000 cords a year could be cut and used but you actually used 350,000 cords. What proportion of that would go to pulp and paper and what to lumber?

MR. HALLGRIMSON: Pulp and paper would be about 275,000 or so, and 55,000 cords in the lumber mill. What it is is that it takes two cords of wood, approximately, to make a ton of paper and one cord of wood to make a 1,000 board feet of wood./ board

MR. WALDING: I see. So would the paper mill running at capacity 375 cords a year is as much as can be used in that . . .

MR. HALLGRIMSON: Yes, about 350 or thereabouts is what we're using.

MR. WALDING: But when you mentioned the lumber mill, is that the 11-acre building that's on the site?

MR. HALLGRIMSON: Yes.

MR. WALDING: How many saw lines are there in that building?

MR. HALLGRIMSON: Two saw lines.

MR. WALDING: Are they being used to capacity with this 55,000 cords?

MR. HALLGRIMSON: Yes.

MR. WALDING: So in order to increase your capacity you would have to put another saw line?

MR. HALLGRIMSON: No, you could add shifts to that. We're not operating around the clock anything, so we could add. There are two shifts now. We could have three shifts, if we wanted.

MR. WALDING: What is the capacity for expansion in that building, in terms of extra saw lines?

MR. HALLGRIMSON: Unlimited, unlimited. I mean, we could have a number of saw lines.

MR. WALDING: What is it then that is preventing you from increasing your production of lumber? Is it the difficulty in sales or the difficulty in logs?

MR. HALLGRIMSON: The amount of saw logs that we get out of that 350,000 is approximately

55,000. The only way you would get more saw logs would be — if you cut 700,000 you'd get 110,000. You could double the sawmill if the capacity of the pulp and paper mill were doubled.

MR. WALDING: I'm not sure that I follow you. What does the supply of saw logs have to do with the paper mill?

MR. HALLGRIMSON: Because your cutting program applies to both. They have to be kept in balance. I mean, we can't go out north of The Pas and pick out saw logs, just cut saw logs. We have to be clear-cut; we get a certain percentage of saw logs and it's very low there because of the size of the wood.

What I'm saying is that with our present needs in the mill, being roughly 300,000 cords, we get 55,000 cords of saw logs that we can put through there. We can put through smaller stuff but our productivity goes away down and we have to process so many logs. We are virtually processing poles at that point.

MR. WALDING: Yes. Now, I understand.

MR. HALLGRIMSON: Now, if we increase the capacity of the pulp so that you use more, then you would get more. I'm saying that if you doubled it in theory you'd double the number of saw logs that he gets and you can increase that.

MR. WALDING: Yes.

MR. HALLGRIMSON: So that is the limiting factor, not the size or even the equipment.

MR. WALDING: Now I follow. Have you been advised by the government that the auditing is to be done by someone other than the Provincial Auditor for this year?

MR. HALLGRIMSON: No, the Act under which we are incorporated the Provincial Auditor is deemed to be our auditor and until that's changed he is our auditor. Now, if he chooses to do that work through somebody else, of course I guess it is something for him to decide but our statements would have to be signed by the Provincial Auditor. As far as we were concerned, he would be the auditor.

MR. WALDING: You might have heard that the government has made certain announcements that some Crown corporations and organizations are to be turned over for auditing to private auditing companies, including some that are presently in the position that you are, where their Act requires the Provincial Auditor to do it. Have you had any discussions or conversations with your Minister or with the government on this matter of an outside auditor doing the auditing work?

MR. HALLGRIMSON: Oh yes, I am aware of that. I have had discussions, both with the Provincial Auditor and with my Minister, and until the law is changed, of course, that is the situation. I have no views on that. If the Auditor chooses to do this function through other people that, of course, is open to him.

MR. WALDING: Perhaps it was unfair of me to ask Mr. Hallgrimson that. I'd like to direct the same question to the Minister, through you, Mr. Chairman, whether it's the Minister's intention to have ManFor's books audited by a private auditing company in the future?

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, that certainly is under consideration. But, as Mr. Hallgrimson has quite correctly pointed out, the responsibility still lies with the Provincial Auditor under the Act and until the Act is amended to provide some other responsibility he will continue to have that responsibility. Now, he may choose to use a contractor to carry out some of the duties, but he still has the ultimate responsibility.

MR. WALDING: I realize that the Provincial Auditor has that responsibility under the Act, Mr. Chairman, but it has not stopped the Minister of Finance from making public statements in the past saying that other Crown corporations would in fact be audited by private companies and that the government had to create who they would be and it was only a matter of negotiation as far as fees were concerned. So what the Minister says is not entirely accurate. I will ask the Minister

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gain, has the government made any decision on handing over these auditing functions to a private company?

R. McGILL: Well, in principle I think that decision has been announced by the Minister of Finance and negotiations are being carried out, but the question placed to me by the member was whether the Provincial Auditor was still responsible. He is still responsible. He will continue to be responsible for the audit until the legislation is changed.

R. WALDING: Can I ask whether any private auditors have been examining ManFor's books or talking to their accounting staff about financial matters of ManFor?

R. CHAIRMAN: Who is that question directed to, Mr. Walding?

R. WALDING: I believe Mr. Hallgrimson could answer that.

R. HALLGRIMSON: Well, yes, I can answer that, Mr. Walding. I had met, on one occasion, with some members of the Dunwoody firm. They had not examined our books. I think that pretty well indicates the extent of their involvement, as far as I am concerned.

R. WALDING: So this was at a meeting between yourself and the accounting firm.

R. HALLGRIMSON: Yes.

R. WALDING: It didn't involve any, would we say, accounting or reviewing of the accounts?

R. HALLGRIMSON: It did; I'm sorry, I didn't introduce Mr. Paul Desmarais, who is our Director of Finance, and he was also present during these conversations.

R. WALDING: I see. Was there any indication given to you of the fees that they might charge?

R. HALLGRIMSON: None whatsoever.

R. WALDING: Can you tell the Committee how much ManFor paid for the annual audit by the Provincial Auditor for this year under discussion?

R. HALLGRIMSON: For the fiscal year ended September 30, 1977, it was \$62,000, which included travelling expenses up to The Pas.

R. WALDING: And for this annual report ending September, 1978?

R. HALLGRIMSON: We haven't received it as yet.

R. WALDING: I wanted to ask you about the real estate division. You mentioned, I believe, five apartment blocks and 20 some odd housing units. Are they all rented?

R. HALLGRIMSON: We have a vacancy rate; I can't tell you exactly what it is, but there are vacancies.

R. WALDING: Could you give me an approximate figure?

R. HALLGRIMSON: 15 percent.

R. WALDING: Are all of the tenants employees of ManFor?

R. HALLGRIMSON: No, they do rent to outsiders.

R. WALDING: Can you indicate what percentage of the tenants would be ManFor employees?

R. HALLGRIMSON: I can't give you a precise figure. Certainly a substantial part of them would be. If you would like that information, we could make it available.

MR. WALDING: No, that is accurate enough. Has your real estate division sold any of its housing units?

MR. HALLGRIMSON: Oh, yes, from the time that receivership took place, I think at that time we had over 100 houses and we have disposed of these units over the years.

MR. WALDING: Can you tell me how they have been sold?

MR. HALLGRIMSON: In many cases, it has been through our own employees or the real estate department, they have effected those sales. I can't say that we haven't used an agent; there could have been local agents involved in earlier years. But we obtain appraisals on the properties and sell them for what we consider to be . . .

MR. WALDING: You have obtained this appraisal before it was sold?

MR. HALLGRIMSON: Yes.

MR. WALDING: Who would the appraisal have been done by?

MR. HALLGRIMSON: It would have been done by probably some local real estate person.

MR. WALDING: Would you have received the appraised price or something close to it in most of those cases?

MR. HALLGRIMSON: I would say that we did, yes.

MR. WALDING: You didn't put any of these properties up for public bid?

MR. HALLGRIMSON: Never, no, never at any time. The bulk of them were, I would say, sold probably 1974 or 1975.

MR. WALDING: It is rather interesting. We were dealing with another public agency a few days ago who dealt with real estate sales in a quite different manner.

I wanted to ask you about another building on the complex, a rather large building full of some very expensive machinery. I believe it was previously termed the James Bertram Building Company, whatever it was. Can you give us an update on that? Is any of that equipment being used and if so, what is it being used for? Is it standing idle; is it rusting or is it being maintained; is it being depreciated or has it been written off?

MR. HALLGRIMSON: If you will turn to Schedule 7, there is a statement covering what we call the engineering division. This is what is known as the James Bertram Plant. We currently employ . . . I think there are about 17 to 18 people in the plant. The sales figures set out the which indicate that over 50 percent of the work is done for other divisions, but there is some other \$246,000 work done for outside parties, being a total of \$811,000.00. There was a cash loss there of \$13,000 compared to \$147,000.00. These are, as you can see, very modest figures. The decision was made that rather than to continue to mothball the whole operation, that we would try to operate it on a modest scale and utilize the machinery that was in it and this is what is being done. It is not in any way of course being operated in the manner in which it was conceived and which was rather grandiose, I would suggest, a \$10 million facility to manufacture paper machines. It was rather ambitious and over the years there were attempts to try and interest somebody in the operation of it, without any success, and so this is what is being currently done. It is of course an excellent facility for the pulp and paper mill and the other divisions to have located there, I rather expensive.

MR. WALDING: I assume that this \$800,000 of sales would be far below its capacity. Do you have any estimate as to what percentage of capacity that would be?

MR. HALLGRIMSON: I have no figures but I'm sure that it would be considerably higher if work was obtainable.

MR. WALDING: I notice that there is no depreciation on this page. Is that done separately

this division, or has the cost been written off?

MR. HALLGRIMSON: The cost would be in with the carried . . . It is carried in our depreciation figures and on Page 2, the notes to the financial statements, it is indicated that the machinery plant was valued at \$500,000 on the basis of an estimated useful value to the integrated operations at January 7, 1971. So it was written down and is included, our depreciation, or our capital cost or whatever you want to term it, only includes the sum of \$500,000 for that facility. The figure on Schedule 7 doesn't include any depreciation.

MR. WALDING: If you can confirm just one last question, Mr. Chairman, can you confirm then that the total accumulated deficit for ManFor has now topped the \$100 million mark, \$101 million?

MR. HALLGRIMSON: The capital deficit?

MR. WALDING: Both, capital and operating — capital at \$61 million; operating deficit of almost \$40 million.

MR. HALLGRIMSON: That's correct, if you include the operating deficit, yes.

MR. WALDING: No further questions, Mr. Chairman.

MR. CHAIAN: I have three persons on the list: Mr. Doern, to be followed by Mr. Gourlay, and Mr. Hanuschak. Mr. Doern.

MR. DOERN: Mr. Chairman, when people are shopping nowadays in supermarkets and so on and local grocery stores and convenience stores and so on, I guess they are confronted with three types of bags. There is sort of a cheap paper bag which is guaranteed to fall apart before you get out of the store. There is a good quality bag, which I hope is yours, and then there is the plastic bags which are becoming ever increasingly more common for fruit and other produce and in some cases you are getting a large plastic bag, more like a shopping bag from the downtown stores, that are being used and so on. I just wonder, at present, if you could give us any idea of what these bags sell for in terms of, if you get down to an individual bag in an individual store, the larger type that somebody carries groceries out of, I'm just wondering if you had any idea what that is worth, one or two cents or five cents, or if there is a price available?

MR. HALLGRIMSON: I think the cost for the average kraft paper bag, a good one, is three to four cents a bag. I think the cost, and I would exclude the inferior bag that you talk of — I'm not sure which one that is — but plastic bags, I understand, cost approximately the same but it requires three plastic bags to carry the groceries that you can get into two paper bags. So the cost is about 50 percent more. You have hit on a point, there is no question about it, there seem to be more of these plastic bags around undoubtedly and plastics have been a threat to this industry for quite some time, in all aspects of the kraft paper industry. But the price of plastics of course is influenced by the cost of oil, being a derivative.

MR. DOERN: What I am interested in is, over the past few years, I guess there was a time when all the smaller bags were paper and then they went to kind of a clear plastic and now they are into a kind of a cloudy plastic bag and as I say, these sort of shopping bag type of things that are given away that I think most people don't like. They prefer a good quality paper bag. But I am also wondering if, projecting into the future in the next decade or so, whether you are able to anticipate further competition and encroachment into your market by this other type of product? I mean, I don't know what is happening in the U.S., but for example, is a greater share of the market now the larger plastic bag? For instance, your basic market, I assume, is a large paper bag and not small paper bags?

MR. HALLGRIMSON: That's right, we're not . . .

MR. DOERN: You are making the large paper bag that most people carry their groceries out of the store in.

MR. HALLGRIMSON: We make the weights, the so-called carry-out sack, what they call carry-out sacks. These are the heavier grades and that varies from 50 pounds to 70 pounds. You mentioned

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the U.S. Plastics don't seem to be the threat there as much as they are here, for some reason. They don't seem to be much of a factor but they are here to some extent and to answer your question, I guess it is something that could displace some of our market for these carry-out sacks. But I would think that cost would be an inhibiting factor.

MR. DOERN: So I assume you are watching this as a trend. I was also wondering whether you have any alternative possibilities in terms of shifting into other qualities of paper or a different type of stock. Do you have that ability or does it involve all sorts of expensive new capital equipment? Let's say if the kraft paper market disintegrated or declined significantly, can you shift your production into glossy papers or other papers, newsprint, whatever, that would be salable and that would keep the plant going?

MR. HALLGRIMSON: Well, to shift into newsprint or glossy papers as you mentioned, to a different type of paper, of course would involve a heavy capital expenditure. I should explain that all our product doesn't go into grocery bags. The other use that it's put to is for heavier industrial bag where there are a number of plies, and that's called multi-wall paper. So if there was a deterioration in that market — I don't think it's ever going to disappear — but if there was a fall-off in that particular use then we would probably try and develop more business in multi-wall.

MR. DOERN: Not knowing much about the pulp and paper business or what goes in in terms of what comes out, are you limited by the type of trees that you have to the end product, or is just a case of the machinery? You can use any trees to make, say, pages for MacLean's magazine or does the type of product that you cut down limit the end use of what can be set?

MR. HALLGRIMSON: No, the wood up there could be used to make newsprint or pulp, or whatever. The quality of the wood is very good and there is nothing . . . But it's the machinery that is different. And if you're at Pine Falls they make newsprint; they don't make kraft paper.

MR. DOERN: Can you tell us at this point in time, since we once had a magic figure of \$100 million to build this plant with the various problems associated with it, at this time how much has the total capital investment been in your operation, from start to 1979; do you have that figure?

MR. HALLGRIMSON: If you look at Statement 1 on the assets side, the land, building, machinery, roads, logging facilities and equipment are set up at \$102,608,000.00. To that you would have added the Capital deficit of \$61 million. That is a figure which represents what was considered to be the cost in excess of its fair market value, I guess. So that would be \$163 million, total expended to date. And that would include interest from receivership up to the time that this company took over the assets in 1973.

MR. DOERN: So were there write-offs, then, for the pre-1973 period and from now on whatever moneys are invested, in terms of Capital, will be paid back and paid off?

MR. HALLGRIMSON: Well, what we can do in the future, of course, will depend upon what can be done, but I would say in answer to your question about write-offs, that technically speaking there was no write-off. That's why you have this Capital deficit effect. They issued shares for a full amount of the amount that was expended by the MDC plus interest up to the date that this company took it over.

MR. DOERN: So there is no recapitalization or new capitalization?

MR. HALLGRIMSON: Well, they issued shares for \$161 million, but we couldn't put that up as an asset because it wasn't worth that at the time. So that's why you have this \$102 million figure. So it's in excess of \$150 million.

MR. DOERN: Is any of your product shipped through Hudson Bay?

MR. HALLGRIMSON: No.

MR. DOERN: Have you ever tried to ship any through there?

MR. HALLGRIMSON: Well, we have thought about it but the shipping season being what it would be kind of difficult to develop markets on the basis of sort of a one-shot shipment in

and August.

MR. DOERN: Of your foreign sales, is some of it shipped from here to Montreal and then . . . ?

MR. HALLGRIMSON: Montreal and St. John, New Brunswick.

MR. DOERN: Year around?

MR. HALLGRIMSON: Yes.

MR. DOERN: That's continuous?

MR. HALLGRIMSON: Yes.

MR. DOERN: But you don't feel you could ship some of that through the Bay?

MR. HALLGRIMSON: No, we ship it each month.

MR. DOERN: Then why couldn't you ship a couple of boat loads out every summer from Hudson Bay?

MR. HALLGRIMSON: Well, I guess you could. You could make those maybe one or two shipments; don't know, depending on the size of the boat.

MR. DOERN: Well, can you give us an idea of what a monthly shipment might be to Europe or England?

MR. HALLGRIMSON: It would be around 1,100 or 1,200 tons. That's not a boat load, you know. It's not a substantial load.

MR. DOERN: Well, Mr. Chairman, I just redirect that to the Minister and say to the Minister that assume that one of the objectives of any Manitoba government is to utilize the Port of Churchill and that I would ask him to carefully examine that possibility of making a number of shipments during that short and all too short shipping season with a view to encouraging the utilization of the Port, which benefits the people in the area and the people of the province because just in discussing this briefly with Mr. Hallgrimson I don't think it's out of the question. We would have to have the economics but certainly the government should also attempt to utilize that Port, and this seems like a logical place in which to do something new or to break some new ground.

So I would ask the Minister if he would consider that and look into that.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, the question of utilization of the Port of Churchill is one, of course, that is of interest to the government. There may well be some technical problems in the handling of this particular product at the Port. My general knowledge of Churchill operations would indicate to me that it's pretty well geared to the handling of grain and that the volume of other products which are going through by way of outbound shipping is relatively small. If some improvement could be made in that direction, certainly it would add to the value of our Port and to the general revenues obtained from that sort.

MR. DOERN: My final question to the Chairman is concerning their operation with energy conservation. I think they're rather proud of their endeavour here using bark and sawdust to replace oil. I'm just wondering if you could give us some general figures of how much you have invested in capital equipment and how soon you will pay this off. And also whether you intend to do anything other here, whether there is any expansion of burning some of your waste product to generate electricity or steam.

MR. HALLGRIMSON: Yes, Mr. Doern. There are two phases to this project, one of which has been completed, and it was at a capital cost of \$511,000.00. Phase Two hasn't been completed but will further improve our ability to burn hog fuel, and that is at a cost of \$223,000, making a total project cost of \$734,000.00. Phase One was completed late last year, permitting hog fuel to be

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fired since December 24th, 1978.

Phase Two is scheduled for completion in the early summer of 1979. When complete, it is expected that this system will displace consumption of 1.6 million Imperial gallons of Bunker "C" with 40,000 tons of hog fuel.

After netting out the cost of each and taking into consideration additional costs of operating the system, savings in the order of \$110,000 in the first year are expected. They will increase in future years since, according to our research, Bunker "C" prices will be rising faster than will our costs of hog fuel and system operations. We expect the project to pay for itself in 3-½ years.

MR. DOERN: You said 1.6 million gallons of Bunker "C". Is that per year?

MR. HALLGRIMSON: Yes.

MR. DOERN: Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Gourlay.

MR. GOURLAY: Thank you, Mr. Chairman. A question to Mr. Hallgrimson. I think you mentioned earlier that some saw logs had been delivered to The Pas from the Duck Mountain area and I was just wondering about the possibility of raw materials coming out of the Porcupine area to The Pas or is that raw material scheduled to go to other markets?

MR. HALLGRIMSON: Yes, I did mention this. I don't think we have anything coming out of the Porcupines at the present, nor do we have any intention of developing that. I think that particular area most of the forestry rights have been given to other individuals.

MR. GOURLAY: That's all I had, Mr. Chairman.

MR. CHAIRMAN: Mr. Hanuschak, then Mr. Minaker.

MR. HANUSCHAK: Mr. Chairman, who is the insurer of ManFor's properties?

MR. HALLGRIMSON: We have a broker by the name of Marsh McLennan who effects our insurance and it's held by various companies, including . . . Lloyd's of London in fact carry some of it. . . I can't even remember the companies. There has been a number of companies.

MR. HANUSCHAK: Does the Manitoba Public Insurance Corporation carry any insurance?

MR. HALLGRIMSON: Yes, they have. They don't sell any insurance, except of course on real estate and I think they have the insurance on the real estate.

MR. HANUSCHAK: I see. Thank you.

MR. HALLGRIMSON: Oh, here I have a . . . There is Lloyd's, Commonwealth, Simcoe and Er Allandale, Royal, Canadian Indemnity, MPIC for our trucks and trailers, etc., and also for real estate. So there are a number of companies and this is done by our brokers going out and getting quotes from time to time on a competitive basis. We, of course, have quite extensive premiums pay.

MR. HANUSCHAK: Now, you say that MPIC has the real estate insurance. Does that include real estate, the plant building or just the residential ?

MR. HALLGRIMSON: Just the residential.

MR. HANUSCHAK: I see.

MR. CHAIRMAN: Can I go on to another person? Mr. Minaker.

MR. MINAKER: Mr. Chairman, just a few questions. One, what is the greater capacity of the plant Mr. Hallgrimson, in terms of tons of paper?

MR. HALLGRIMSON: Well, when it was built the rate of capacity was 350 tons, but, as you know

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; you refine the procedures and also improve certain systems you very often exceed that and
e are now at a stage of producing 380 tons per day, which comes out to roughly 128,000 tons
year.

R. MINAKER: Mr. Chairman, there is usually a rule of thumb of how much a plant would cost
build in the present day on a ton basis. With that kind of capacity, what would it cost to build
new plant like that? Do you know offhand, sir, roughly what it would cost?

R. HALLGRIMSON: Well, when it was built it was about \$100,000 and now I think it's around
00,000.00.

R. MINAKER: \$300,000.00.

R. HALLGRIMSON: Yes.

R. MINAKER: You say it's \$300,000 for a ton.

R. HALLGRIMSON: Yes.

R. MINAKER: To build a plant.

R. HALLGRIMSON: Yes.

R. MINAKER: Thanks very much.

R. CHAIRMAN: Can we adopt the report? The report as adopted. (Agreed) Committee rise.