



Second Session — Thirty-Second Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE

on

ECONOMIC DEVELOPMENT

31-32 Elizabeth II

Chairman
Mr. G. Lecuyer
Constituency of Radisson



MG-8048

VOL. XXXI No. 5 - 10:00 a.m., TUESDAY, 14 JUNE, 1983.

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
ADAM, Hon. A.R. (Pete)	Ste. Rose	NDP
ANSTETT, Andy	Springfield	NDP
ASHTON, Steve	Thompson	NDP
BANMAN, Robert (Bob)	La Verendrye	PC
BLAKE, David R. (Dave)	Minnedosa	PC
BROWN, Arnold	Rhineland	PC
BUCKLASCHUK, Hon. John M.	Gimli	NDP
CARROLL, Q.C., Henry N.	Brandon West	IND
CORRIN, Brian	Ellice	NDP
COWAN, Hon. Jay	Churchill	NDP
DESJARDINS, Hon. Laurent	St. Boniface	NDP
DODICK, Doreen	Riel	NDP
DOERN, Russell	Elmwood	NDP
DOLIN, Hon. Mary Beth	Kildonan	NDP
DOWNEY, James E.	Arthur	PC
DRIEDGER, Albert	Emerson	PC
ENNS, Harry	Lakeside	PC
EVANS, Hon. Leonard S.	Brandon East	NDP
EYLER, Phil	River East	NDP
FILMON, Gary	Tuxedo	PC
FOX, Peter	Concordia	NDP
GOURLAY, D.M. (Doug)	Swan River	PC
GRAHAM, Harry	Virden	PC
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry M.	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HEMPHILL, Hon. Maureen	Logan	NDP
HYDE, Lloyd	Portage la Prairie	PC
JOHNSTON, J. Frank	Sturgeon Creek	PC
KOSTYRA, Hon. Eugene	Seven Oaks	NDP
KOVNATS, Abe	Niakwa	PC
LECUYER, Gérard	Radisson	NDP
LYON, Q.C., Hon. Sterling	Charleswood	PC
MACKLING, Q.C., Hon. Al	St. James	NDP
MALINOWSKI, Donald M.	St. Johns	NDP
MANNES, Clayton	Morris	PC
McKENZIE, J. Wally	Roblin-Russell	PC
MERCIER, Q.C., G.W.J. (Gerry)	St. Norbert	PC
NORDMAN, Rurik (Ric)	Assiniboia	PC
OLESON, Charlotte	Gladstone	PC
ORCHARD, Donald	Pembina	PC
PAWLEY, Q.C., Hon. Howard R.	Selkirk	NDP
PARASIUK, Hon. Wilson	Transcona	NDP
PENNER, Q.C., Hon. Roland	Fort Rouge	NDP
PHILLIPS, Myrna A.	Wolseley	NDP
PLOHMAN, Hon. John	Dauphin	NDP
RANSOM, A. Brian	Turtle Mountain	PC
SANTOS, Conrad	Burrows	NDP
SCHROEDER, Hon. Vic	Rossmere	NDP
SCOTT, Don	Inkster	NDP
SHERMAN, L.R. (Bud)	Fort Garry	PC
SMITH, Hon. Muriel	Osborne	NDP
STEEN, Warren	River Heights	PC
STORIE, Hon. Jerry T.	Flin Flon	NDP
URUSKI, Hon. Bill	Interlake	NDP
USKIW, Hon. Samuel	Lac du Bonnet	NDP
WALDING, Hon. D. James	St. Vital	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA
THE COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, 14 June, 1983

TIME — 10:00 a.m.

LOCATION — Room 255, Legislative Buildings, Winnipeg.

CHAIRMAN — Mr. G. Lecuyer (Radisson)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Mr. Cowan and Hon. Mrs. Smith
Messrs Ashton, Johnston, Lecuyer, McKenzie
and Santos.

APPEARING: Mr. Hugh J. Jones, Chairman,
Mr. Douglas McKay, Former President and
Chief Executive Officer
Mr. Barry Oliver, Acting Chief Executive
Officer

MATTERS UNDER DISCUSSION:

Financial Statements of Flyer Industries Ltd.
as at December 31, 1982.

* * * *

MR. CHAIRMAN: Is the committee agreed to proceed? The committee is meeting this morning to consider the Annual Report of Flyer Industries. Madam Minister, do you wish to introduce the members?

HON. M. SMITH: Yes, I'm happy to introduce the hearings on Flyer. I'd like to introduce Hugh Jones who is the Chairman and General Manager; Doug McKay, President and CEO at Flyer until June 1st, but Mr. McKay has come back to attend these meetings; Barry Oliver, who is the Acting President and CEO after June 1st.

Flyer has had difficulties in the year under review. Analysis of those difficulties, the reasons for them will be given today in as much detail as is requested. We are confident that corrective action has been taken to deal with each of the problems and we can see the operation slowly turning around, so we look at last year, and the current year, and next year with cautious optimism. We feel there is an important place and opportunities for this company, but our current passage has not been without difficulties which we have had to address.

I'd like to ask Mr. Jones to give his introductory remarks.

MR. CHAIRMAN: Mr. Jones.

MR. H. JONES: Mr. Chairman, if I could begin. It's usually most inappropriate for someone in my position to disagree with what the Minister's has just said, but

I do want to just emphasize I'm not the General Manager of Flyer. I'm the General Manager of MDC just in case there's a misunderstanding.

With your permission, Mr. Chairman, if I could perhaps begin by bringing the committee up to date on the content of the board of Flyer, it might be useful to begin. The Directors of Flyer are appointed each year at the annual shareholders' meetings and last September I was appointed Chairman. Mr. Allan Shnier who has been a Director for a number of years is still a director; Mr. Albert Fia who has also been a Director for a number of years; Mr. Fraser MacNaughton; Mr. Kenneth Clark, President and Chief Executive Officer of Spiroll Kipp Kelly; Mr. Roy Church and Mr. Leonard Remis. In January of this year by special resolution, Mr. Lloyd McGinnis was appointed a Director; Mr. Van Hall and Mr. Mal Anderson. Mr. Anderson as you probably recall has undertaken some new responsibilities with the city and is no longer participating in the board.

It will be clear, Mr. Chairman, from the report before you as the Minister just said, that the results for December 31, '82 are extremely disappointing. In general terms and in very general, broad terms, a very significant contribution to that loss position has resulted from problems the company has had and still has with the completion of its contract in Vancouver, the Vancouver-Westinghouse situation which has been reported quite substantially in the press.

In addition to that, the company, the board agreed that there should be a significant write-off of obsolescent inventory which was addressed, perhaps for the first time, in a truly significant fashion in that year. We have Mr. McKay present and, as the Minister said, he was the President and Chief Executive Officer until May 31st and in terms of the details of that performance I'm sure he'll be available to answer questions.

I should like to comment on the management position. Mr. McKay became President of Flyer in February 1981 on a three-year contract and his personal interests elsewhere and the commitment term which he had discussed in a general fashion in 1981 was such that he's chosen to resign effective May 31st. The board, however, still expects to draw upon Mr. McKay's experience and request his assistance certainly on some of the issues which he initiated and on which we undoubtedly will need his help.

In the transition period between the appointment of a new Chief Executive Officer - I should comment there perhaps immediately that the board has engaged the services of Peat Marwick and Partners as we did a number of years ago to undertake an executive search. That process is actively under way but in the transition process the board has from itself formed an executive committee, a very active executive committee I might add, that meets at least once a week and a member of that committee is Mr. Barry Oliver who has been appointed the Acting Chief Executive Officer. So the

affairs of Flyer in essence are really run by that executive committee with Mr. Oliver.

In terms of the current order book which perhaps Mr. Oliver and Mr. McKay can comment on more fully, the company in essence has a book that's filled until the third quarter of 1984. We would expect, despite the problems we have had, to complete the final shipment of the trolleys to Vancouver by the third quarter of this year. Then we have an order from the City of Chicago for 200 diesel buses, an order worth approximately \$25 million U.S. and very recently we've been happy to get confirmation from company management that the Chicago Transit authority has agreed to some extension, significant extension which allows us to undertake this order and complete it hopefully by the end of November this year and that penalties - there are penalty clauses in that contract, but they will not be applicable until December 21st of this year. This is quite a recent development and is different from what you may have been reading in the press. So that's 200 for Chicago which will be produced in Winnipeg.

Then we have a contract for San Francisco for 110 diesel buses financed through the Urban Mass Transit Authority of the United States worth \$16 million and that that one you may wish to look into in some more detail because there is an element there of final assembly required outside Canada. In addition to that for San Francisco, we have reached a stage, really this week, yesterday, where we believe we are on the verge of a getting a contract for 70 more additional vehicles for San Francisco. The contract, I want to make it clear, is not signed yet but every indication given to the company seems to be that that contract will be forthcoming. The importance of that one is that those 70 being purchased or intended to be purchased by San Francisco are not being funded through the Federal Urban Mass Transit authority but from municipal funds and because of that those 70 can be produced in Canada. We would not be obliged to undertake final assembly for those.

The company's marketing strategy has been developed in a somewhat different, and we think a very pleasing way, we have entered into an agreement with an American company and on that issue specifically, I think Mr. McKay himself should provide the comments because he was actively responsible for that kind of initiation. From the Board of Directors' standpoint, we are under no illusion that the problems and the difficulties that the company has have been resolved completely.

We believe, as the Minister said in her introduction that many corrective measures have been and are being continued to be taken. But despite the effort in the current fiscal year which is the same as the calendar year for 1983, the Board has no illusions that we're going to turn the performance around suddenly into a significant black position.

Perhaps I could stop there, Mr. Chairman, and with your permission ask Mr. McKay to comment upon the marketing issue which I think is a very significant development for Flyer.

MR. CHAIRMAN: Mr. McKay.

MR. D. MCKAY: Thank you. Mr. Jones has covered generally the position of the corporation in '82.

Obviously there will be more questions asked on that subject and I am certainly here to answer any details that are required. A natural concern that we should have and as we go through that is albeit, where do we go from here.

Speaking of that, I am pleased to report that the customer demand for the Flyer products has really never been higher. This fact was accomplished during '82 by the dedication by management, supported by the board, despite the problems that we've read about to very very detailed market research, to perceive our customers' needs, to understand the legislation requirements of our products in the markets that we serve, and in addition to dedicate ourselves to product reliability and raising the image of a Flyer product in the field.

When I joined the company I made a tour of all of our customers to date and found generally a very discouraging relationship between our customers and also a difficult problem in finding customers that really wanted Flyer buses. I can report that today there is an extensive market for Flyer buses and that has been accomplished by a dedicated field service and correction of various design defects from long ago.

The costs therefore which appear in '82, I consider from my vantage point an investment for the future. Our last contract awarded to Flyer by Chicago - and it was the last really as a non-domestic bidder in the U.S. market. When I say that, every contract we've had up to and including Chicago that was in the U.S. market required a waiver to the then existing legislation and automatically had a 10 percent penalty in terms of selling price.

This lasted through 1979, 1980, 1981 because of very minimal competition, but because of deteriorating market conditions in the U.S. caused largely by recession etc., the market which had been 5,000 vehicles a year was only 2,800 vehicles a year, and competition then really necessitated us to re-evaluate our position, and very quickly.

With that in mind, over a year ago, we basically started studies and were then in the position by December to make a tender based on subsequent orders, complying with The U.S. Surface Transportation Act of 1982, which was really only passed in December of 1982. Our timing, therefore, was contingent on the passage of that Act. Commonly in all of North America it has been referred as a nickel-a-gallon tax which for the first time dedicated long-term financing for mass transit equipment.

I think too often we discuss the realities of what is termed "Buy America", and various other things, and neglect what other restrictions are on potential suppliers to that market, because this particular Act that dedicates this money to mass transit, also has in it what is termed the Mitchell Amendment that says that 10 percent of the funds, provided through federal authority of the United States, will be dedicated to minorities. That, therefore, requires that any potential supplier meet that as a criteria for sales. A program which we initiated with the San Francisco tender, and we were a successful responsive bidder as a compliant under all the terms of the Act, does meet that requirement. We accomplished that through the use and the long-term association with a firm in the United States that does our marketing distribution and will ultimately involve itself in the final assembly operation.

The support for that program has been fantastic; in fact, our customers are the people that really brought us together to ensure that they would be in the position of being able to continue to buy Flyer products and, in addition, the U.S. Government authorities have given full support to the program and have given us reason for confidence that future orders will be forthcoming, again assuming we meet the domestic requirements and be lowest responsive bidder. I think with that I would stop on that note, if I may.

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

The Member for La Verendrye.

MR. R. BANMAN: Thank you, Mr. Chairman, I'd like to ask the Minister, first of all, if the government is looking for any private investors, any companies or any individuals who would be interested in either joint venturing with regard to the operations at Flyer, or purchasing the operation for continued manufacturing in the province?

HON. M. SMITH: We're open to the entire spectrum of options and really, I think, that's all I can say. We are exploring widely, in terms of the future, but we don't, at this point, have any decision that is near to being made.

MR. R. BANMAN: Has the government approached, or has the government been approached by any individuals or companies with regard to the possible joint venturing or purchase of this company?

HON. M. SMITH: We've had some preliminary discussions.

MR. R. BANMAN: Mr. Chairman, I just have to make a few brief comments here at this particular point. One of the problems that this company has had through the years is one that we're seeing before us here today again. It's something that many of us who are concerned about the survival of this company in Manitoba and the jobs that it can create have been labouring over either when in opposition, or myself when I was in charge of the particular company.

The problem that we see happening is a reoccurring one and at almost every Economic Development Committee Meeting that you attend, whether it be the New Democrats that are in power or the Conservatives that are in power, it's a sort of a tomorrow company; tomorrow's going to be better. I think one of the things that many of us who looked at this responsibly realize is that the only way that this company is going to maintain its operations in one form or another in Manitoba, is to try and find someone that can operate it and try and make sure that it will meet the changes that are going to hit the bus industry in the next 10 years and also be able to make the necessary decisions and business investment that will sustain this operation.

I guess the most difficult part in dealing with this, as the Minister has just indicated, that they are now looking at possibilities of maybe privatizing or joint-venturing this facility. I would remind the Minister that it was precisely her colleagues who raised a big hue

and cry when a previous administration, for the betterment of this company, tried exactly that same thing. I think the record is clear, if one looks at the other companies that have been dealt with by the MDC, it was the New Democrats who really raised a loud hue and cry in the Legislature or talked about giveaways and all kinds of other things.

We just had a report in one of the daily papers a couple of weeks ago which indicated that the companies were doing very well, thank you, in private hands and were not only producing more products in Manitoba, also employing more people and were not a constant drain on the provincial purse. So it wasn't, Mr. Chairman, a philosophical bent or a hang-up on anybody's part; it was something that the previous administration was involved in to see that there were jobs created in this province, and that the best welfare of the workers as well as the taxpayers was undertaken, and I'm convinced and I'm pleased to see that that happened.

So I say to the Minister that the indication that she's given this morning is one which I can support. If we can find some individual or some company that is ready to give some assurances that the jobs will be maintained in this province and that the operation can be of a long-range nature and there will be some research and development done with regard to this company, I think that is the way this company is going to survive. There might be some heavy write offs that will have to take place and I don't think that any of us would argue with that, because really the way things sit right now and the future, this particular company will continue to cost the taxpayers money and then, in the final analysis, unless they can keep up with the technology that's being developed, they're going to find themselves in real difficulty.

So I say to the Minister, I think it's imperative that everything be done to try and make sure that this company not only continues in Manitoba, but that the problems with the growing now, accumulated deficit - we're now over \$20 million that the taxpayers of Manitoba have lost in deficits - plus I suggest to the Minister that upon the sale or trying to dispose of some of the assets, we would probably see a further loss I think maybe on some of the things with the exception of the building, but on some of the other things that there would be a further loss.

So I am glad to see, Mr. Chairman, I want to say that the New Democratic Party has switched positions with regard to this company and that they are now willing for the sake of the company to look at all avenues and explore all avenues to make sure that this company is viable and that they've forsaken the path of trying to, for short-term political gain, go ahead and say that anybody that even breathed a word of trying to privatize or joint venture was just doing a terrible thing. It was really just trying to give away an asset that the Manitobans were very fortunate to have.

Having said that, Mr. Chairman, I wonder if I could pursue a little further the Buy America situation. A number of years ago, there was a company that was registered in North Dakota and I know that for a long time it wasn't activated and there was nothing happening. I believe that the company was registered in North Dakota because of the problems that some of the other manufacturers such as Motor Coach was having and were making the bodies over here and then

trucking the chassis down to Pembina and having them done. Has there been any further movement on that North Dakota situation?

HON. M. SMITH: I would to comment just on your general remarks and then have the specifics on the last question answered by Mr. Jones. I think the record should be clear that what we are looking at is the full spectrum of options, that is, to continue operating the firm under public auspices, to consider a joint venture or to shift to private. We're not prejudging the situation. Decisions will be made based on cost-benefit analysis and if we can show that the protection of jobs and benefits, the assurance of R & D, the marketing that will stand a better chance of surviving in what is a growing market but an increasingly complex and uncertain market; the same with the technology which is changing and where we will need to run very fast to keep up let alone get ahead of the field. Whichever form of ownership we feel stands the best chance of assuring those factors, the viability of the company, then that is the decision we will make.

I would just like to inform people that whoever owns the company and operates it, they will require access to \$100 million worth of bonding facility, and \$18 million - \$20 million worth of banking facility. Those are quite major figures for anyone. However, I guess I would like to, in a sense, recognize the fact that whichever government is in power, that a lot of the facts in the analysis of Flyer and its strengths and deep difficulties are recognized by whichever government is in power.

I think with a slight variation or comment on the member's comments, that we are not persuaded in advance that private operation, necessarily, can provide better management; but we are willing to look at options as they come up, and to consider the full range of options.

Perhaps Mr. Jones would like to comment on the Buy America question.

MR. H. JONES: In terms of the question, specifically on the North Dakota, yes, Flyer did establish a North Dakota subsidiary a number of years ago, but that avenue was not pursued. In fact, because of very recent developments, the Board of Directors at this moment: (1) there's a clear recognition that Flyer has an obligation to undertake what is termed meaningful final assembly in the United States if we are to continue getting that business. We are already going to be involved, as I said earlier, on the San Francisco contract.

We're looking at a series of options, but the route we would prefer to take - I want to make it clear that decision hasn't been made finally but certainly it would appear to be the most attractive one - is to enter into partnership with the company which Mr. McKay referred to earlier, and I'll ask him to elaborate in a minute, we already have an agreement with that company for marketing Flyer's products in the United States, and we are leaning toward giving serious consideration to entering into a similar agreement with that company on final assembly. If I could stop there because Mr. McKay is very familiar with this issue, Mr. Chairman.

MR. D. MCKAY: The final assembly, basically, is defined as meaningful final assembly. To be meaningful, under

the legislation, 50 percent of the US-produced components have to be assembled in the United States; that really dictates what meaningful final assembly is.

We have, in the vehicle, 60 percent of the component cost is of U.S. manufacture. To be considered a domestic producer, 50 percent of that has to be done, and actually assembled in the United States. One other option could conceivably be down the road, the use of a free port, and conceivably that may, or may not, be a worthwhile deal, but right now they're not available to us. At this stage, knowing that you have to do that, the structure that we have developed is also taking recognition of the other parts of the legislation that demand that, in the fact that a certain amount of labour has to be expended, then let's expend it in jobs that will also employ minorities, which is part of the legislation process.

I think one of the criteria that should always be kept uppermost, and I heard it earlier, was that our shareholders are basically the people of Manitoba, and should be the people that benefit the most from the investment made. To protect the 500-600 jobs it's necessary to have some final assembly to ensure stability in the marketplace, which is a very essential ingredient to any Flyer survival.

Secondly, there are jobs that we do in Winnipeg that help our competitive position that we should never erode, in terms of trying to meet some legislative commitment in other countries. By the program that we have developed, we are going to meet those requirements through jobs that have to be located there, and allow ourselves to protect the jobs that we now have, not only in Flyer, but we have an extensive subcontract network throughout the City of Winnipeg, and in Manitoba, that has to have those jobs protected, and I must say, not protected other than they are the most competitive suppliers that we have.

Our marketplace stature, as lowest responsive bidder, is enhanced by the jobs that we can protect in Winnipeg because, by and large, the cost of those components are less when sourced in Canada, and we anticipate that we want to maximize that, and this is what this program allows us to do. If we were not to do that, and we found this even in Chicago, to meet a 1 percent or 2 percent, actually a 3 percent, minority business goal, that we were forced to look at very small companies that were really paying a premium to source that work in the United States, and taking work out of the Winnipeg area. This we felt, on the long term, knowing it was going to a 10 percent goal, would be very detrimental to Manitoba and to the company. Therefore, we structured this program along this line and conceivably this is where we have got the support for that program, and that leadership role today in meeting the obligations under The Surface Transportation Act of 1982.

MR. R. BANMAN: I wonder what effect this joint venture approach with a U.S. firm would have on the employment levels in Manitoba? Have you guesstimated what kind of a drop in the total number of employees at Flyer would result with an agreement like this?

MR. D. MCKAY: Yes, we have done more than make a guesstimate; we've done quite an intensive business

plan at the level of production of 10 a week that we basically are geared to do at this stage. The amount of labour involvement in the final assembly is, in terms of people in round numbers, about 70 to 80 employees. So, therefore, if nothing else was considered that could be an impact. What we are doing in this program, however, because of access to a far greater market potential than what we have, we're trying to lessen this by ensuring that we can build conceivably 12 a week, if we have the market to protect that, which will then have minimal requirements; and, if indeed, we were to increase to 15 a week, for every job that was put in the U.S. we would create 1.75 jobs in Manitoba. So it's that growth we're looking at.

In addition, part of the program is that we have researching jobs in subcomponents of components that can be made in Winnipeg very very well that heretofore have been made in the U.S., and under the legislation, not as any gimmick or anything, but basically, by making that subcomponent here and having it assembled it still retains its U.S. final assembly character, but recreates new jobs for the people of Manitoba. We have one contract at this time where we're the lowest responsive bidder. We have, in round numbers, about \$300,000 worth of work that would come into Manitoba on the subcomponent of this nature. This, of course, is still pending, but basically this is what the program is dedicated to do.

MR. R. BANMAN: You mentioned 10 buses a week so you're projecting, I would imagine, about a 500 unit production year this year.

MR. D. McKAY: No, the actual viable working days in a given year, when you discount holidays and various other vacation shutdowns, works out to around 230, and then, of course, you have to take up your startup times, etc. So, on that level of 10 a week, and in the weeks that you actually perform that, I believe our projection this time is in the order of 390.

MR. R. BANMAN: Would you say that the 390 units is a number that the physical plant facility can handle very well? Do you see you being able to increase that dramatically in the facilities that you presently occupy?

MR. D. McKAY: Well, in answer to your first question, certainly 390 is a very realistic and attainable goal, particularly when we have a market that supports that. In answer to your second question the plant is working on a single shift, there are bottleneck operations such as paint, etc. that will require some investment. This is being studied by management and at appropriate time the board and management will be making recommended changes that will allow them then to utilize the existing facility on more than a single shift basis that would then allow contemplation of a higher level of manufacturing capability.

MR. R. BANMAN: In bidding on the different jobs are you using the 390 figure as the sort of base when you're talking about cost of production?

MR. D. McKAY: The figure that we use for proposal stages is lower than that. I think in most costing systems

you look at what would be a standard volume against an anticipated volume and without revealing what that is which I don't really feel is important, it is slightly lower than that.

MR. R. BANMAN: One of the major problems that the company has had through the years is sort of the boom and bust cycle that they've gone through. All of a sudden there's an abundance of contracts and then suddenly there weren't any so you were going from 180 buses a year up to, I think one year they produced in excess of 500. I think one of the philosophies which the previous board and I guess the present board has was to try and stabilize the number of units that would be produced and then make an effort to sell that and not to expand too rapidly. I guess I'm asking this of Mr. Jones, is this basically the philosophy that the board has so that we don't get back into that sort of boom and bust feast or famine situation?

MR. H. JONES: In essence that is correct, that's the present stance of the board but perhaps I could just elaborate a little there that - I don't disagree at all with the comment on the boom and bust issue - but Flyer, in our view, has never had an opportunity to sit down and have an intelligent market strategy. The stability simply hasn't been there. We believe that within reason with the entry of this company now in the United States and that market with its significance, we are now going to be in a position where we can sit down and truly plan the production cycles far more intelligently than we were ever able to do before.

MR. R. BANMAN: Two further questions with regard to the Canadian market. I wonder if you could tell me what the projections are for the coming year with regard to the total bus market in Canada and the other question is are we still in the position where General Motors has the total Quebec market sewed up? In other words are we frozen out by the agreement made between the Quebec Government and General Motors who located a plant in Quebec that we do not bid or will not be considered as being allowed to bid on any transit buses in Montreal, Quebec or any other part of the Province of Quebec?

MR. D. McKAY: We did very extensive research into the Canadian market through 1982 and continuing on to today. The Canadian market has historically been as high as 500 to 600 vehicles a year of which one-third have been historically sourced in the Province of Quebec.

In answer to your question in reference to that specific province the realities of Flyer being able to sell in the Province of Quebec are just not feasible because part of the Quebec procurement policy is to insist on 40 percent of the content being produced in the province, which would effectively require us to move the plant to Quebec because we actually have produced about 40 percent of the content in Manitoba.

With the recession period there's been two things happen, one is funds have been cut off by and large at the municipal level for mass transit equipment and so where there was historically 500 to 700 vehicles tendered a year, in 1983 I would think that the total

would be less than 250. Again, of those one-third minimal are in the Province of Quebec which I said earlier is not available to us and in addition certain other areas have become, because of recession and because of concern for jobs in those particular areas, negate our ability to win orders. We have tendered, certainly towards the latter part of '82 several municipalities and we were basically the lowest responsive bidder but it became expedient conceivably to dedicate that money for job creation locally and as a result we did not win those orders.

In my opinion, therefore, although we have repaired very significantly across Canada the perception of Flyer as a very viable bus manufacturer and our recent 10 vehicles for Calgary, for instance, performed admirably, warranty on them was absolutely minimal, and there's renewed interest in Flyer because of the work we've done. However that renewed interest will not be forthcoming in proposals because the funding is not available and, quite frankly, the Canadian market through 1983, other than the City of Winnipeg which is very very interested in some buses, there is absolutely no market penetration that I see during '83 and probably through '84 at this stage.

MR. R. BANMAN: To Mr. Jones, given the heavier write-offs taken on some of the inventory which he indicated earlier had been done this year and I guess would count for part of the \$3.5 million loss, I'd like to ask him the \$64 question, what he feels or what the board feels the projections are for the coming year? In other words what are you anticipating for the year ahead of us? Have you budgeted for an operating loss, have you budgeted for a profit, what is the balance sheet going to look like next year? I realize that's putting him on the spot but what are you planning that it should look like?

MR. H. JONES: Well, I never like to plan for a loss, Mr. Chairman, but it says here the board has recently gone through a very intensive exercise in looking at a revised budget for this year, partly because of the problems that have been ongoing, as I said earlier with the Vancouver contract with all that that has implied. So we've taken what we believe to be a very realistic view and we are certainly not expecting, the board is not expecting to see a profit in 1983. When I say that and I'm not sure whether I want to give the precise figure but certainly it will not be, the budget has not been drawn in any fashion other than in every area as realistic as possible. In fact we've probably taken the worst possible position when we've looked at this. We would expect to see the loss that's showing on this balance sheet reduced by least \$2 million. That's, I think, as far as I want to go.

MR. R. BANMAN: I wonder if Mr. Jones could inform the committee what they had projected - how far out were we in our projections from the statement that we have before us, December 31, 1982, the \$3.5 million loss. How does that compare with what the board was projecting for that particular year?

MR. H. JONES: Mr. Chairman, there's a very significant turnaround. I'll get the figure precisely in a minute, I

believe it is \$2.9 million profit, in that region. So there's an enormous turnaround in 1982.

MR. R. BANMAN: Just to clarify this - I would like to have seen the \$2.9 million profit that there were some projections. When you say a turnaround, you mean, I guess, a down turn. The board was looking at a \$2.9 million profit and we're ending up with a \$3.5 million loss. Is that right?

MR. H. JONES: Yes, that's correct, Mr. Chairman.

MR. R. BANMAN: The arrangements in the United States, do you feel that you can move ahead on that and then do maybe some of the partial assembly over there without really disrupting the plant here too much. I guess I ask the question, the transmissions, for instance, and the motors which come - I think it's the Detroit Diesel that you put in there - from the United States, when they are installed in Canada, is that considered U.S. content or because they're installed here, is that considered Canadian content?

MR. D. McKAY: The engine and transmissions, as they are now installed in Canada, although they are manufactured by Detroit Diesel and obviously are U.S., under the terms of the legislation, become Canadian content because they are final-assembled here.

The regulation basically is, and that's what promotes meaningful, final assembly, is to take the high-ticket items and put them in the United States, which basically demands that engines and transmissions go in in the United States. The program we have is not to disrupt our plant whatsoever, because part of the program is to continually keep a backup in Winnipeg in case of strike or in case of various other things that would conceivably inhibit the ability to produce on time and avoid late penalties. So therefore the program is to duplicate exactly the same position on the line and exactly the same tool and just duplicate exactly what we're doing from Station 71 on to Station 84 in the plant, but do that in the United States. This gives us then the ability to always be able to handle and maximize our ability to final-assemble here, for Canadian, if there is such business or other projects that allow us to do that and, in addition, back up the U.S. facility for implementation. There has to be a training program and that has to be done.

MR. R. BANMAN: Just on that point, and I must admit that when I was in charge of it, it really bothered me to see high-ticket items such as transmissions and motors that were made in the United States and then shipped to Canada, and I think the amount of time to install that into the unit is a relatively small amount of time with regard to the whole manufacturing of the bus, and that's always disturbed me. But I guess it's a trend of the protectionism which we're all starting to develop and the United States is no different than anybody else.

I wonder if it might not be a worthwhile suggestion, Mr. Chairman - and I never did this when I was there and I would suggest maybe to the Minister - to tackle this particular problem, when we are bringing in parts that are not manufactured in Canada and then suddenly, just by virtue of installing them here, have to have those

parts considered suddenly Canadian content is not exactly fair. If they're manufactured in Canada and installed in Canada, fine, so be it, but on things like transmissions and diesel engines which are being brought in, transported in, and then just basically having a few bolts fastened to the frame and then that becomes Canadian content, I don't believe is fair. I would urge the Minister to make some representation to the Federal Government, to our government, to see if, in different trade negotiations and other things, whether or not there couldn't be something worked out. If we're using U.S. parts and that amounts to a fairly large amount of money with regard to that, surely our trading partners to the south, either through the Autopac Agreement or something else, should recognize that. I would urge the Minister to make every attempt to try and make that change.

I would have one further question. The backlog of orders now, with regard to the Vancouver one and others; what have we got on our order book at the present time? I think Mr. McKay said to the middle of 1984?

MR. H. JONES: The third quarter of 1984, I said, in my introduction. As I said earlier, Mr. Chairman, the Chicago contract is for 200 units; the San Francisco firm contract is for 110 and we expect to get confirmation of the further 70 for San Francisco. That's the order book. Apart from the final completion of the trolleys for Vancouver we have, I believe, about 35 left in the yard and because of problems there that we hope to see solved in the next month or so, those should be shipped by the end of September.

MR. R. BANMAN: I imagine the San Francisco order is also a trolley order. Is that right or no?

MR. H. JONES: No, diesels.

MR. R. BANMAN: Those are all diesels, but they did buy some trolleys from us. I think there are some trolley buses there. So you don't anticipate having difficulties like you're having in Vancouver, with the San Francisco order. Obviously if they're diesel, then it's a different situation.

MR. H. JONES: No. The company seems to be able to produce diesel buses with minimal problems.

MR. R. BANMAN: The Chicago contract is also a diesel contract, so the only trolleys that you have right now are the Vancouver ones.

MR. H. JONES: That's correct.

MR. R. BANMAN: Are you dealing with Westinghouse who's providing, I guess, the running gear, if you want to call it that, for those units?

MR. H. JONES: Yes, they are, in effect, our subcontractor for the propulsion system. I should make it clear that the technology in this contract is far in advance of the methodology used in the old trolley contracts; like San Francisco, it's never mentioned. This is new technology and because of that, and we can

go into some detail if the member wishes, really, because of that state, that development, we've run into problems that no one could have foreseen.

MR. R. BANMAN: Mr. Chairman, before I turn it over to my Chairman, I want to just say that the Minister has, in her remarks, indicated that they are looking at different aspects and, of course, concerned about the jobs in the province, in Winnipeg, not only at Flyer but it's people that are supplying certain goods and services to that particular company. I would say to the Minister that really what she's done and I hope she's successful, but she has adopted the same approach that the previous administration was trying to do with this particular company.

Hopefully, some agreement can be worked out so that this company will become not only less of a burden on the Manitoba taxpayers, as evidenced this year and probably in the years to come, but also that there can be some employment in here. I would say to the Minister that I would hope that she would make every effort now to try to do precisely that, because I think that as long as the people of Manitoba are the only ones that control this company and there aren't any outside influences from people in the world of business that have a stake and an investment in this company, we will continue to lose substantial amounts of money in all the things that the Manitoba Development Corporation did and everything that the government has done in the field of business. I think it's becoming increasingly obvious that the government can't run anything properly and that the best place for many of these companies to be is in private hands, ensuring employment, ensuring the continued viabilities of these different companies. So I encourage the Minister to try everything that she can to try and get somebody interested in this particular company so that it will not only provide jobs in Manitoba, but that it will be around 10 years from now and not cost the taxpayers \$3.5 million a year to operate.

HON. M. SMITH: Mr. Chairman, I do accept the principle that people who have a stake in a business tend on average to be more committed to operating that business well, but I don't accept it as an absolute position. I suspect that the member doesn't either, because otherwise he would have, no matter what the difficulties, ensured that during his time in office the responsibility for Flyer, would have accomplished a transfer no matter what the write-down to private hands. But I suspect when he looked at the pros and cons and waived one thing against another, obviously he chose to keep it in the public sector even though that wasn't his preference.

We are going to do likewise. We have put people onto the board who have the wide range of not only expertise in finance, in engineering, in marketing, in production, but who are exhibiting and have exhibited to us their willingness to give of their time and of their skill to demonstrate that a public board can in fact operate as a most effective responsible body for a public company.

Now I, myself, knowing that human beings don't come in perfect packages as it were, I am not 100 percent confident that this board is going to solve all the

problems, but I am 90 percent sure that they're demonstrating that kind of expertise and will and discipline, so that I think that the decision about the ownership of the company is going to be made on a total analysis of the cost benefit on all those items that I mentioned earlier; but I do accept the member's good wishes for successful management of the company in the spirit in which I know it's offered. We'll certainly be doing our level best to keep Flyer on an even keel, preserve the jobs, and hopefully move it into a profitable situation.

MR. R. BANMAN: I just want to say to the Minister, she finds herself in a unique situation which no Conservative Government can, because when the NDP are in opposition, any attempt to privatize or any sale of any of these assets, which in the final analysis have been and it's been proven out in the best interests of employment as well as the best interest of the taxpayer, is looked at by the New Democrats, when in opposition, as a giveaway, a sellout, something terrible. She finds herself now in the unique position of having an opposition that will not chastise her if she makes a good deal with some private company. So she finds herself in a better position than any Conservative Minister ever could to try and solve the problems of Flyer because she will not receive the political bombast that a New Democratic Government would give a Conservative Government.

I say to the Minister, the ball's in your court; you've got a golden opportunity to try and do something with this company without having an opposition breathing down your heels and accusing you of a giveaway and a sell out. Let's do something for this company that will see that it continues to provide jobs in the Province of Manitoba and not cost the taxpayer of Manitoba \$3.5 million as it did this year. It's an honourable intention to try and have a board there that's going to run it properly, but we've been doing that for some 12 years now, and I think that if you'll look at every Economic Development Committee meeting, including the ones when I was there, that was my hope too, but history has shown that it doesn't work.

I am concerned about the future of this company and, as I said, she finds herself in a unique position because she's not going to have the opposition making political hay out of something when she is trying to see that this company remains viable. So I throw that out to her; she finds herself in a position that I would have liked to have found myself in when I was Minister.

HON. M. SMITH: I can assure the member that any decisions we make will be based on as rigorous an analysis as we can make of the commercial viability, the impact on the provincial budget, and the impact on the total economy of Manitoba. That's the same type of analysis that we are applying to any public investment or a decision not to invest, which we probably make more of those decisions than we do of the former; but I can assure the member that perhaps there is some advantage that I have to be practical but I, for one, don't find my colleagues unwilling to be practical and, in the best sense of the word, business minded. It's just that we're saying that the business of the public is a broader concern. It isn't just the

commercial viability of the company; it's also the impact on provincial accounts and the economy of the province. That's the context within which we'll be making a decision.

MR. CHAIRMAN: The Member for Burrows.

MR. C. SANTOS: Thank you, Mr. Chairman. When Mr. Jones was referring to the order for trolleys for Vancouver, he mentioned some kind of new technological changes that no one could have foreseen. Could he kindly elaborate what those things are?

MR. D. MCKAY: Basically, starting from the initiation of the program, I believe you're referring to the Vancouver Trolley Coach Programs.

MR. C. SANTOS: Well, I've just had the word we have met some kind of technological changes which no one could have foreseen. I would like to know what those are.

MR. D. MCKAY: Basically, the technological changes occurred primarily in the application of the propulsion equipment supplied by a supplier. The propulsion equipment was not technically new, but the application of this equipment to the use on a trolley bus was a new application.

Quite frankly, without using Monday morning quarterbacking as such, they underestimated the application engineering of a proven technology to a trolley bus. By that, 75 percent of all of the solid state chopper systems used in transportation were supplied historically by this supplier; so they had a premier position in the marketplace for that type of technology. The application, however, was primarily to steel wheel vehicles such as people movers in airports and light duty commuter trains, etc., where the relative environment of operating those was far different than in a trolley coach.

The selection of that technology was really not done by Flyer. Flyer proposed it with seven different types of propulsion systems, all of varying from some without this technical, solid state computerized sophistication to other vendors that had the same sophistication.

The customer selected a Flyer trolley coach with that type of propulsion system and, as I said earlier, the application of that, however, in this case became far more - I think it was basically underestimated as to that type of application. The design of it in terms of heating, in terms of other factors, including one you may have read about, called radio interference, that phenomena was not necessarily even known in the steel wheel technology because it went to ground as such. All of the variations or noise went to ground for the steel wheel. This does not happen in a trolley coach.

So, in that case, that is what has given the customer some difficulty and concern. When they buy these vehicles, they are meant to last for 20-30 years. They want to ensure that while they operate well today, they can be assured of that on the long term, and the onus of that responsibility is on Westinghouse to provide those answers. This has been a concern to us.

MR. C. SANTOS: Mr. Chairman, on another topic. Would the government managers agree that if private

interests are given some share in running Flyer, it'll be a better proposition to have in the form of partnership between the government and business, rather than on the part of the government doing it all alone by itself?

HON. M. SMITH: I think that the presumption is a sort of ideological one. I, for one, am finding as we work through different sectors that it's wise to look at the whole spectrum of arrangements and then apply them to the specific case or sector and see whether those assumptions work out. I don't feel that that's the kind of judgment that can be made in advance. I can tell you though the kind of things we would be looking at, and that would be the number of jobs; the level and quality of jobs; the likelihood of them staying in Manitoba; the spinoff benefits to the province in subcontracting and taxation, in perhaps providing a critical element in a whole sectoral development.

We in Manitoba do at present have three different types of bus production; two of them are private and one is public. One of the private ones has received some public monies in form of loan guarantees from the Federal and Provincial Governments. Our goal with all of these insofar as we are relating to them is to build up the industry and capacity in Manitoba. I think the form of ownership is something that has to be determined based on the analysis, rather than one that we start out with in advance.

One of the advantages of having government and private-sector joint-venturing is that you can draw on the expertise appropriate to each group, or the resources. What we are doing at the moment is trying to bring the expertise from the private sector that we know we need into our board. Then, since a board shouldn't really be required to involve itself in day-to-day operation, we are asking, expecting that they will put together the kind of staff in the public company that will have the ability to work as a team and have those areas of expertise, and then the board's role will revert to being more supervisory which is the usual function of a board. What we want to do is assess our success in doing this.

MR. C. SANTOS: For example, in the matters of technological development that was claimed not foreseen, I would imagine that if private enterprise had a stake as well in the success of this quasi-public venture, there would be no need on the part of the government to acquire those experts in the technological field of interests, because they would, on the basis of their basic interest in the success of the enterprise to which they would themselves be partners, would make available all that expertise and talent without the government having to buy them out.

HON. M. SMITH: Well, ironically, in the problem we've had in Vancouver, it has been the private sector, not owner-partner, but project partner who has had the problems with the technology and who has not always been as willing to put in adequate support, so that I think your thesis isn't borne out in that regard. Now, we didn't have to buy the technology from them but we had to work in partnership with them.

MR. C. SANTOS: Mr. Chairman, but given that they have no stake in the success of the public enterprise,

I'm not imputing motive, but what would prevent them to see that the public enterprise failed so that ultimately it would be sold to them?

HON. M. SMITH: Well, I guess it's a scenario that might work out if that company was interested in purchasing, but then they stand to lose something in their public credibility, too. I think some of the old distinctions that used to exist between public and private are perhaps no longer quite as relevant. To a certain extent, whether you're a public or private company you have to produce a good product, you have to produce it efficiently, on time, you have to deliver and service it well and work out all the technological difficulties, so that I think increasingly we're going to see firms evaluated by their results and not necessarily by their form of ownership.

I think the ownership question has to see which is the best way of ensuring good results, but also which is the best way to ensure the most benefit for Manitobans.

MR. C. SANTOS: Mr. Chairman, I'm not arguing for private ownership, but the reason why some private companies are efficient in their operation is because they have no ultimate resort except to rely on their own income, rather than rely on government budgets. The reason why governments create private corporations and quasi-public corporations is because they would like to free the activities of these organizational units from the constraints of civil service rules and regulations, so that they could compete equally with private enterprise as to the matters of their operations, and how they would conduct their activities in a free hand. The reason why we have public corporations is to allow them the flexibility of the corporate enterprise with respect to the matters of their activities and operations.

What I'm saying is that private companies are efficient by necessity, because they have to rely on what income they make in order to pay off their expenses. On the other hand, government corporations have some cushion. If they get into trouble, they always can get some money somewhere else other than the product of their own operations. It is for this reason that private companies by necessity try to be efficient, but it is not always the case because they are also subject to the contingencies of the environment of the society in which we live, depending on the basic law of supply and demand in our economic system, they could go under as well. What I'm trying to say is that people cannot work against their own interests. If they have a basic interest in the running of an enterprise, they will not work against it, but if they are merely hired and they have their other interests different from the interests of the public enterprise, they may be motivated by some other than the noble intention of making the enterprise succeed.

Thank you, Mr. Chairman.

MR. CHAIRMAN: The Member for Sturgeon Creek.

MR. F. JOHNSTON: Mr. Chairman, there was a mention of a sales representative or somebody handling the sales for Flyer Bus in the United States, could we have the name or the people that would be doing that?

MR. D. MCKAY: The company is called Lawson National Distributing and its head office is in Houston, Texas.

MR. F. JOHNSTON: Does the company still use the facilities of the Canadian Consuls through United States to work with them when they're dealing with customers in United States; not only dealing with customers, but to assist in information regarding people who are looking for buses?

MR. D. MCKAY: Yes, certainly in the time that I've been associated with the company, I've done everything I could to enhance that help. I found that Canadian Consul offices in Los Angeles and in San Francisco, in Chicago, and in Boston have been most helpful in exactly what you say. Again, we can't expect them to do our marketing program and our selling program but through the local Winnipeg office, particularly, we built up an association that everything of interest to Flyer has been relayed to us and we are allowed to comment on it well in advance which has helped us immeasurably in discerning certain potential markets that we may otherwise not be aware of.

MR. F. JOHNSTON: The information that's been given us is that the order book is filled till the fall of '84. Are there any more orders or are there any potential orders that are being looked and I ask that question because Mr. McKay has stated that he didn't see much hope for bus purchases or requirements because of the economy through '83 and '84 in Canada. Where is the potential market to put some more orders in that order book so that we don't have another valley with this company as we've had before? As my colleague mentioned we've worked on peaks and valleys with the company and are we going to overcome that when these orders run out? In other words we'd better start getting some new orders fairly quickly.

MR. D. MCKAY: Yes, at this stage we are working on other pending orders. We are still the lowest responsive bidder on another property that is up for - the tenders were opened as early as January but has been under very very interesting discussion primarily because the next lowest competitor is located in the county for which the property requires the buses and the funding for the buses from Washington demands that they give it to the lowest responsive domestic bidder, which we are. The realities of local employment have been very difficult for that finalization of that order. It is still a very good opportunity for us and we have real recognition of support from the Federal Funding Organization that conceivably the funds would still be only available to the property if they were to give us that order and this should be resolved within the next month or so, that's 140 units.

We're now in the area that we are preparing the tender documents for 400 buses for, what we call Chicago 2, which is the follow-up on the present order and we look upon that very positively because of the very high relationship we have with Chicago. Again, it's dependent entirely on the opening of the tender and the competitive position but we look upon it as very positive. We have, through our marketing representatives availed ourselves of other properties

that we had never really even called upon; New Orleans being one, Houston being another and in total the potential bidding in the next six months is upwards of 700 to 800 units. This is an opportunity for Flyer that we've never had which gives us some reason that in past years we were possibly only called on to tender possibly 300 to 400 units and a grand bidding activity in itself does not guarantee sales but you still have to have the opportunity of the bidding activity and I can say unequivocally that we have that opportunity far greater than we've ever had in our history.

MR. F. JOHNSTON: The 16 buses - and I've got 16 written down here - am I right in saying there must be 16 of the Chicago order assembled in United States and the 70 balance that just came forward - pardon me, for San Francisco, I understand 16 have to be assembled in the United States, 70 we received the go-ahead to assemble them all in Canada, in Manitoba, am I correct in that?

MR. H. JONES: No, Mr. Chairman, the San Francisco issue - we have a contract for 110 buses. In addition to that we believe we're about to enter into a contract for a further 70. The decision isn't made but we believe that we have a strong position, those 70 can be produced entirely in Canada. In terms of the Chicago contract for 200 they also will be assembled in Canada. The first entry, we believe, into Flyer being obliged to undertake assembly in the U.S. is for the 110 units for San Francisco.

MR. F. JOHNSTON: So all 110 buses have to have some assembly in the United States?

MR. H. JONES: That's correct.

MR. F. JOHNSTON: Where is that going to be done?

MR. H. JONES: Mr. Chairman, as I said a little earlier the board is reviewing a number of options as to the precise location and the precise arrangement that Flyer may enter into for that process. It's a decision that the board has to look at, frankly, very quickly. The general intent would be, we believe, the best intent would be to enter into an arrangement with the Lawson Company. Again, the timing and the consideration isn't complete, the precise location is still under debate. There are a number of locations that have been looked at.

MR. F. JOHNSTON: What's the delivery date for San Francisco buses?

MR. H. JONES: Mr. Chairman, we start in December this year.

MR. F. JOHNSTON: How long have we had the contract?

MR. H. JONES: Since March.

MR. F. JOHNSTON: Was there no negotiating done while we were getting this contract or bidding this contract as to where they'd be assembled in the States, did we go in blind?

MR. H. JONES: Mr. Chairman, perhaps I could ask Mr. McKay to answer that because he was actively involved in the negotiations for that.

MR. D. MCKAY: In answer to your question we didn't go in blind we went in with a complete program on compliance with a view of being able to provide the final assembly option by subcontracting through a minority business company and having it originally done by a bus rebuilder in the U.S., which is acceptable. We also were in the area where we could do it ourselves and we had a major study that showed that that basically was feasible. The third option that is now available to us and which is the reason why we do not want to specifically say where it is is basically the one - because the customer has provided us with a longer implementation date we are able then to consider very seriously going directly through Lawson National Distributing and meeting all the long-term requirements of compliance in the United States which ensures us of continued federal support.

MR. F. JOHNSTON: I understand there's been some efforts to get a bus contract from Peru. Was that successful or is it not successful and who handled the merchandising and sales for us in that area?

MR. H. JONES: That goes back a number of years, Mr. Chairman, when I think it was towards the end of 1980 or the beginning of '81 when we were then also in interregnum between chief executive officers and I was asked by the then government to go to Peru in response to pressure, if I can use the word, from the Federal Government. Frankly, as a result of that visit and subsequent developments we only in effect sold one unit to the City of Lima. We did enter into the process of an international tender, if I could make this statement that the experience that Flyer had was frankly not - how can I express this - was not sufficient to be aware precisely of all the implications of that kind of South American tendering process. The market there, I believe strongly, is still very significant but the company has to do a great deal of homework, despite the considerable assistance we had from the Canadian Government and the Canadian Consuls and trade people. We, ourselves, have to do a lot of homework before we can really develop that kind of business.

I might add, Mr. Chairman, if I could, which is not perhaps directly related to the question the member asked, but the Flyer product itself, because of the status of the transit systems - using that word loosely - in some of the Peruvian cities, the Flyer product, frankly, is too expensive and really isn't what is required. There are some discussions going on which we hope will result in an order for another bus company in Manitoba; we're not sure yet.

MR. F. JOHNSTON: On the Vancouver order, it has been explained that the propulsion technology was developed by Westinghouse and hadn't been tested in any buses and, I might say, that I jotted down that the customer approved the propulsion that was put into the buses, and in the paper it was stated that we don't have any place to test trolley buses in Manitoba; was the customer willing to accept them and sort of have

the test when he started using them; or should there have been some way to get the kinks out of this product before they started using them.

MR. D. MCKAY: Right from the outset there was, let me put it this way, the lack of a test facility at Winnipeg had very little to do with the problems that were encountered in Vancouver. Right from the outset there was specified component testing at Westinghouse, interface testing at Winnipeg, and acceptance testings in Vancouver. This was done on the first vehicle, and the vehicle met all of the design criteria at that time and, as such, gave us confidence to go forth with the build. The vehicle was on active test in the City of Vancouver on all of the trolley lines, at that point, for a period of nearly 12 weeks prior to any shipment of production vehicles. As I said, it never though carried revenue passengers. It was not anticipated that the problems that were not discovered there would create any problem when they did get into revenue service. However, when the first six production vehicles were delivered in June, we found that not to be true.

It was from there that we had to reassess the position; as a matter of fact, we made a basic decision to take them off the line and we, in some planning, had recognized, because of the new technology, there could be some problems and had, by planning, been able to reserve some 70 vehicles for Boston which would be then put on the line, by plan, in early July with a view to taking the time, then, to meet the requirements of the technology discovered to, in fact, implement the program in September.

So, again, I can think of nothing specifically that would have been discovered on a test track in Winnipeg; I can't say it would not have been helpful, but I cannot really feel that the lack of it would have saved a certain amount of implementation time.

MR. F. JOHNSTON: Is the new technology that we are apparently using in the trolley buses that went to Vancouver, does it put us ahead of anybody else, and does anybody else have the rights to this technology, other than Flyer Bus? I don't know that Westinghouse would give you that privilege to hold it forever, but if we're the pioneer with it, in this particular case, are we going to be ahead, substantially, of other people in this field?

MR. D. MCKAY: I have to say that: (1) the bus that is now in service in Vancouver is probably the leading example of trolley bus technology in the world; and, therefore, by that Flyer can take a certain amount of pride that they are part of that. Westinghouse and Flyer entered into this program with a view that, having achieved that success, then we should look worldwide at various markets on a joint venture. We explored those and there was significant interest because the trolley coach technology has not really changed too significantly for the last 20 to 30 years.

I have to say, however, that with the experience we've had, and again I'm not for a minute prejudging what the Board would make the decision on, or the shareholders, or whatever of Flyer, I would approach with some degree of caution the total relationship because of the ongoing lack of commitment by

Westinghouse to be able to supply a bus line. This would cause me concern.

The other consideration is, as was mentioned by one member, there are no more trolley coach orders, and there are not likely to be in the near future, because there are only nine cities with trolley coaches - five in the United States and four in Canada - and, by and large, that equipment is in a state that it isn't really feasible to believe that they will be replaced in the near future, or added to in the near future.

There was a year or two ago significant interest because of the higher cost of fossil fuels but, with the more or less reducing cost, that interest has waned over just the last year.

MR. F. JOHNSTON: Can I just ask Mr. McKay, you mean by bus lines setting up a line of production in their plant to produce this particular technology, is that it?

MR. D. MCKAY: Well there's no other vehicle manufacturer that is presently in North America in the trolley coach business.

MR. F. JOHNSTON: Mr. Chairman, I'd like to ask, in I guess sales terms, are we going to get the kinks worked out? Are they so serious that they can't be worked out, or are these something that, with effort on everybody concerned, will be able to give Vancouver the confidence that these buses will run for 20 years?

MR. D. MCKAY: The support of the customer, through this very difficult period, I've never seen a customer support such as it is. Their only real question, and it's a question that's very logical, and one which has concerned with the board of Flyer and the management of Flyer, is to ensure that Westinghouse guarantees that long-term performance. Westinghouse has indicated they have no difficulty with that but, having taken as long as they have to get to the position they now are, would naturally cause concern. I believe the customer, in fact, has so stated to us that we are in the position where actually the user, in this case, which is a little bit different than the customer, has readily accepted these vehicles. They feel that they're excellent vehicles in service; the public, by and large, has accepted them extremely well; the drivers have, and the maintenance department has.

In answer to your question, the kinks, by and large, are worked out subject to assurance to the customer, by Westinghouse, of certain problems being solved on a long-term basis. The customer has protection of 10 years of design defect from Westinghouse, which basically they already have that protection contractually, but they want more reassurance and naturally so after this long implementation period.

MR. F. JOHNSTON: Are there any problems in the trolley bus with the components that are manufactured in Manitoba? I ask that question because, again, the newspaper article said there was something about the chairs or the seats for the driver and I seem to recall a company in Winnipeg developing a seat for Flyer buses that we were all very proud of. Is there a problem with that or any other components made in Manitoba?

MR. D. MCKAY: The one that you refer to, first of all, was again specified by the customer through choice of two or three different options. It was actually, I believe, of U.S. supply. Therefore, from Flyer point of view, we only supplied what the customer wanted and the argument, basically, is between the drivers and B.C. Transit and the customer and there's certainly no liability or responsibility at Flyer.

Any other problems, certainly of anything that was built in Winnipeg, have all been cleared and are all resolved. We, ourselves, had one which was referred to in the media, of a door problem and, quite frankly, we did have a door problem and that has been now resolved.

MR. F. JOHNSTON: Mr. Chairman, it's fairly obvious that there isn't that big a market for trolley buses and Flyer does a good job on the diesel or the power buses. Is it the intention of Flyer to concentrate on the type of business that they do well from now on, when these quotations which you say you'll have the opportunity to quote on 700-800 units, are they mostly of the type that Flyer does well?

MR. H. JONES: Yes, they all are.

MR. F. JOHNSTON: I asked last year in this committee, if Flyer had set up any R & D which is an absolute necessity to stay in business, this business or any other, and the Member for Burrows, I must say, is a little on the same track as many people, in that there are very, very large corporations that you can have joint ventures with, that do have the expertise and probably testing facilities which can be a benefit, and I think we all know that. There are some in Europe and I'm not too sure, in the United States, that have tremendous R & D regarding transportation systems. So I can agree with the Member for Burrows that it's not inadvisable to work with somebody like that. But that not being the fact, that hasn't been done as yet, is Flyer working to have research and development in the product that they make well, to continue to be good in that field and give customers confidence that they are going to be in the field for a long time?

MR. D. MCKAY: At the time of our last meeting when that question was asked, we were in the midst of a five-year program and were in the process of conducting significant market research, primarily to perceive our customers' needs. I think Flyer, as many companies have at times, tended to sell their pride of excellence rather than understanding what the customer needs will be over the long term, and the results of that definitely define the types of products that we should be putting emphasis on with R & D going forth into the late '80s.

The presents product, in addition, significant work has been done in testing and will continue in testing to constantly improve the performance and include up-to-date maintenance requirements and changing requirements and we see this by and large, with the market area we're now in, being very satisfactory for the next three years. I must admit that with certain changes and restructuring and also I would have to be quite frank with saying the problems we encountered

in the trolley coach program, took all of our efforts and we sort of moved that, not on the back burner, but we had to delay some of those programs and I would envision that the present management would be able to go back on those well-researched programs and seek help towards the end of this year.

HON. M. SMITH: We've been looking at this from the point of view of the entire transportation equipment sector and have been exploring with the Federal Government, possibilities of some technological R & D programs which might provide this kind of support to Flyer, or at least would help them tap into available technologies. In addition, they've been doing some of their own and I can assure you that, I think, Crown Investments has been looking at this, the overall problems of technology, R & D and export as they relate to the Crown companies. That's an area where we don't have specifics to report at this point in time but there's definitely been planning and exploratory work going on.

MR. F. JOHNSTON: Mr. Chairman, there was a mention of a management committee led by Mr. Oliver. Who else is on that committee?

MR. H. JONES: Maybe I should correct that, Mr. Chairman. It's an Executive Committee of the Board of Directors, with Mr. Oliver as the Acting Chief Executive Officer as a member, and the Executive Committee consists of myself, Mr. Remis, Mr. Van Hall, Mr. Ken Clark, Mr. Roy Church and Mr. David Gardave of Crown Investments.

MR. F. JOHNSTON: These are not necessarily the board members. I didn't get all the board members. Who on the board is on there?

MR. H. JONES: Mr. Chairman, with the exception of Mr. Oliver and Mr. Gardave, they're all board members.

MR. F. JOHNSTON: Mr. Chairman, when I asked the Minister in the House, regarding Mr. McKay's resignation, when it was received before his contract was up, it was indicated before that that he had resigned. The answer, very clearly in Hansard, from the Minister, says it was by mutual agreement. That's a strange statement after we hear about resignation. What is the mutual agreement with Mr. McKay? He has a contract until February, 1984. Is it being honoured? What is the structure of the departure of Mr. McKay?

MR. H. JONES: Mr. Chairman, the contract was a three-year contract and it expires at the end of January, 1984. But Mr. McKay, in his discussions with the board earlier this year and in terms of the leading up to his resignation, there was a clear wish on his part to take up other interests and he submitted his resignation. I'm not clear on the mutual agreement issue other than the fact that the board looked at this for some time, in terms of responding to Mr. McKay's own wishes as to when he might leave the company. There was a mutual agreement between the directors and Mr. McKay as to the effective date of the resignation. That's about the best explanation I can give.

MR. F. JOHNSTON: I understand Mr. McKay hired the services of a lawyer to take care of his case or position when it was decided that he would like to leave Flyer and the position would be that, as a Chief Executive Officer regarding the contract that he had with the company, he was not allowed to run the company the way that he thought it should be run.

MR. H. JONES: Well, Mr. Chairman, I don't know whether I can comment on discussions with any lawyer Mr. McKay may have hired, but from the stance of the board and again I say, there was mutual agreement in the conclusion that Mr. McKay had reached. We were given to understand very clearly - and Mr. McKay I am sure will comment to himself this morning - that as far back as the day when the contract was initially signed, he at that time indicated he did not have a long-term commitment to this province. I really shouldn't be speaking for him, he's here. But that was the understanding and subsequently, he chose to as I say, in effect, break the contract.

The only other comment I can make is that certainly the Board of Directors for, I think, quite acceptable reasons simply had to work with the Chief Executive Officer in addressing the problems which were coming to light across the board. I don't see that as a major issue.

MR. D. MCKAY: Perhaps it would be worthwhile for me to speak to the question because there has been, I think, very unnecessary controversy about the relationship and possibly I would take this opportunity to clarify it.

I came to this company with a contractual relationship. The board at that time openly said to me that the company could be for sale and for my own protection it was worthwhile to in fact have a contractual relationship. The time that was set at that time was to meet the needs of both myself and of the Board of Directors. Three years was chose with that in view. In January, under the terms of the contract, the Chairman and myself had to rediscuss that. At that time, I pointed out to the Chairman, that in my opinion, it would be difficult for me to extend that tenure, although it was well requested and I feel very happy that it was, because my own personal interests were such that indeed it would not be in my best interests to so do. With that in mind and recognizing the long-term requirements in my considered opinion over every aspect that has been my greatest concern that there is a lot of work on my part. Down at Flyer there are a lot of very good people totally dedicated to the success of Flyer. In no way did I want my personal ambitions to in fact impact the company if at all possible. With that in view, we then looked at what was the best way and we had considerable discussion on that. I think the answer is that basically there are some concerns in terms of programs I'm involved in. I've agreed that I'll do all I can to help the Executive Committee of the Board in the final implementation of those programs.

I think it's in the best interests of the company to get on with the job of finding a successor. I believe that the mutual agreement, if that be it, is very well-thought-out and agreeable to all with a view to ensuring wherever possible, the chance of ongoing success of Flyer. That's really my position.

MR. F. JOHNSTON: Well, Mr. Chairman, I appreciate Mr. McKay's answer and I have a very high regard for his ability. It has been proven and we've heard it in committees before. I am asking the question directly, if Mr. McKay felt that the terms of his contract were being carried out on the basis that he would be able to operate this company in a standard businesslike manner, to see that the company did its best to show a profit and remain a viable company within this type of market. I am asking that question because I have reason to, as a member. I have reason to ask that question on the basis that I have heard that Mr. McKay was not allowed to do that on all cases.

MR. D. MCKAY: I would have to answer your question this way. There is no doubt that there would be changes and this is quite normal and I wouldn't know why that would be surprising to anybody. There has to be, under the circumstances. But I would have to say unequivocally that, in my opinion, any of those changes that I noted did not in any way inhibit my ability to perform the activities as Chief Executive Officer of that corporation. Whether they would in the future or not is a matter of surmise really more than anything. As I've said before, the reasons for my leaving are probably more a personal decision for myself and my family, far more than the supposition that you put out on the table.

MR. CHAIRMAN: The Member for Roblin-Russell.

MR. W. MCKENZIE: Mr. Chairman, I just have a couple of questions. I am wondering on the Vancouver order, the warranty penalties, what the cost of that has been to Flyer to date.

MR. D. MCKAY: Well, in fact, warranty as far as a normal warranty situation that we provided for has not as yet started other than in a few cases, the actual expenses are the retrofit of some of the design problems that have had to be an ongoing situation and still are, primarily on account of Westinghouse but also some of our own in terms of doors etc. that had to be upgraded in terms of the realities of revenue service. Those have been included in that warranty cost. In

1982, I believe it was in the order of 300-and-some-odd thousand of the total warranty provision.

MR. W. MCKENZIE: Is Westinghouse prepared to pick up a share of those?

MR. D. MCKAY: Westinghouse has already picked up a certain amount of their out-of-pocket costs. I believe that it's a bit premature to indicate the position. There are basic damages in the contract which, quite frankly, we will recover. The situation as to further recovery, I think is a decision only the board can make and one in which I am acting on an ongoing consultative basis with the board. I think it would prejudice our position in some respects to discuss that in some detail.

MR. H. JONES: I agree with Mr. McKay's last statement, just to add that the board's own position is that we are in an ongoing relationship with Westinghouse. We are very dependent upon their supplies but the board is giving very serious consideration to the position it might have to take at some later date.

MR. W. MCKENZIE: I just have one question. What's the payroll tax cost to Flyer for '82, and then what do you project for '83?

MR. H. JONES: We can find that in a moment, Mr. Chairman.

MR. CHAIRMAN: While the information is being sought, does the member have other questions?

MR. H. JONES: Mr. Chairman, if I could just say, if we can't find it very quickly, we'll supply the information.

MR. W. MCKENZIE: You could supply it at a later date, as long as you put it in the records of the committee. I just want to have it in the record.

MR. CHAIRMAN: Are there further questions? Do I have the agreement of the committee to pass the report? (Agreed) The report is passed.
Committee rise.

821