

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT**

**Tuesday, 25 June, 1985**

**TIME - 10:00 a.m.**

**LOCATION - Winnipeg, Manitoba**

**CHAIRMAN - Mr. S. Ashton (Thompson)**

**ATTENDANCE — QUORUM - 6**

*Members of the Committee present:*

Hon. Messrs. Cowan, Kostyra, Schroeder  
Messrs. Adam, Ashton, Downey, Enns,  
Johnston, Malinowski, Ransom

**APPEARING: A.E. McKenzie:**

Mr. R. Kives, Chairman of the Board  
Mr. R.K. Guelpa, President and Chief  
Executive Officer  
Mr. K.C. Robinson, Vice-President, Finance  
Manitoba Development Corporation:  
Mr. Hugh Jones, Chairman  
Mr. Greg Goodwin, Assistant General  
Manager  
Mr. Alex Musgrove, Treasurer

**MATTERS UNDER DISCUSSION:**

A.E. McKenzie Co. Ltd.- 1984 Annual Report  
Manitoba Development Corporation - 1984  
Annual Report  
Winnipeg Racing Ltd.- 1984 Annual Report  
William Clare (Manitoba) Limited - 1984 Annual Report

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**A.E. MCKENZIE CO. LTD.**

**MR. CHAIRMAN:** The committee will come to order. We are considering the Report of A.E. McKenzie Co. Ltd.

Mr. Minister.

**HON. V. SCHROEDER:** I'm not sure whether one should take up too much time with an opening statement. Why don't we just get right into it, go page-by-page or whatever way the members would like to handle it. On second thought, I believe the Chairman does have . . .

**MR. R. KIVES:** Yes, I just have a short statement to make.

Mr. Chairman, a copy of A.E. McKenzie Audited Financial Report has been given to those present. Does everyone have the audited report before them?

In reviewing the results of the corporation for the fiscal year, 1984, I am pleased to report that the corporation made a modest profit of \$135,000.00. This is in contrast to previous years' reported losses of

practically 1.3 million in 1983 and 1 million in 1982. In fact, this is the first audited profit the corporation has recorded since 1978.

I am also pleased to state for the record that the profit is after all expenses and servicing of the debt of A.E. McKenzie and prior to any effects of restructuring our long-term debt.

Mr. Guelpa will explain in detail during his address how this was achieved. But generally, the results were obtained by a team effort on behalf of the board, the president, the managers, the union and all employees. The key factors were efficiency and cost reductions in all areas. To their credit, employees deserve to be congratulated for their fine efforts.

We, as a board, and Mr. Guelpa feel there is room to improve upon this modest beginning profit, but we all feel the corporation is stabilized and it is on the way to recovery. We have many things yet to accomplish in terms of higher sales and better profits, but we have truly made a great start in the short time the new team had been in place.

I am also happy to report that morale within the company had vastly improved in the last year and that the profit made by the corporation has not been as a result of mass layoffs of people. McKenzie remains one of the largest employers in Brandon. In fact, a number of good people who had left the company due to its problems have since returned as a result of its new outlook and working environment.

With regard to the restructuring, as has been stated previously, the board of directors and management felt that restructuring was in the best interest of the corporation from a commercial point of view. The rationale for this has been stated before. I can strongly say, even in hindsight, that restructuring was still the best commercial decision for the corporation, both in short term and in long term.

As I stated last year, and I feel the board and company have delivered on this, we need time and your support, no fresh capital and no drain on the province's Treasury. We have made tremendous strides in one year. It will be an uphill battle from here, not all roses, but we will succeed. Again, all we ask is, please just give us your morale and verbal support.

If there are any questions, Keith Guelpa, who is the president, and Ken Robinson, the financial, can answer any questions. Vic is very advertent to all the problems.

**HON. V. SCHROEDER:** Before we get into questions or discussion, I believe the president also had a report to provide. Maybe we could receive that.

**MR. R. GUELPA:** Mr. Chairman, as there are many statements contained within the corporation's annual report, I feel a statement which best explains the key factors contributing to the turnaround are contained in the corporation's consolidated statement of operations, three pages from the front. I will now go through those.

Sales for 1984 ending October 31st totalled approximately \$15.1 million, compared to \$15.6 million in 1983, which represents a decline of approximately 5 percent versus the previous year. The decline in sales can be attributed entirely to the Consumer Products Division and to the McKenzie Steele Briggs line in particular. This sales decline was part of a management strategy decision to phase out low-volume, low-profit product lines and place emphasis within the sales department on not chasing any sale, only profitable sales. Part of our previous profit problems were associated with too much emphasis being placed on getting dollar sales without the financial analysis to see if the sales contributed to a bottom line.

The improvements we have made in the cost of goods area reflect, in part, this new sales strategy. As less inventory has to be carried, better handling efficiencies can be gained, etc. In fact, even in 1985, this strategy to consolidate sales continues, and we expect our sales to decline. We feel 1985 is our low base. From there, we can begin to build.

On a brighter note, sales in our direct marketing division of McFayden's have increased between 1983 and 1984 by 10 percent, and our retail store division sales have increased by 3 percent.

Moving to the cost of goods area and the gross margin area, one of the key achievements of the corporation has been in the area of gaining efficiencies in the cost of goods area. As can be seen by the exhibits, the corporation has been able to reduce its overall cost of goods by approximately 5.6 percentage points or over \$600,000.00. Conversely, our gross margin improved by from 41.5 percent to 47.1 percent.

The main rationale for this improvement can be traced to lowering of the deterrent factor, labour and overhead efficiencies and a better product mix. The employees are to be given credit for their hard work in this area which obviously, by the results, paid off.

Another key achievement has been in the area of expense control. Total company operating expenses were reduced by approximately \$750,000 or over 11 percent. The savings were the result of tighter expense controls, cutting out of non-contributing projects, rationalization of the sales force, closing of sales offices and overall belt-tightening in every area.

Superimposed over this effort was a structural financial monitoring system which allows better management at the bottom line. Again, however, the employees came through in the final analysis and produced the results.

In the other income area, this rose to \$85,000 from \$18,000 in 1983, primarily due to a once-only rebate of overpayments into our health benefit plan. The combined effect of over \$1.3 million in savings from the cost of goods area and expenses combined, allowed the corporation to show a \$1.3 million profit prior to debt servicing versus an approximate \$100,000 loss position in the previous year. Interest expenses, basically the servicing of our debt, were the same except for small variations. Therefore, the net results yielded a \$135,000 bottom-line profit in 1984 versus a \$1.3 million loss the previous year, and this is after servicing of our debt and before any restructuring.

Mr. Chairman, before we entertain questions, I would like to add a few other observations to my prior comments. I stated last year that in my opinion there

is no intrinsic reason why the company could not be profitable, and I think the results speak for themselves. I still maintain this view. I don't know how much the company will make in the future. This will depend on a number of complex variables and the results remain to be seen. However, the patient has stopped bleeding and is in stable condition. Our job now is to get the patient out of the hospital and once again fully active. We need more time for this.

Another key observation, as stated by Mr. Kives previously, is that we accomplished the turnaround without mass firings or without the trauma of large relocations. We were also able to vastly improve the morale of the employees. As I stated last year, after only a few months in the company, we have a group of dedicated and hardworking employees. When you reflect on their accomplishments in the space of less than one year, you will see that they took the company from a \$1.3 million loss position to a \$135,000 profit position, a swing of close to \$1.5 million.

Mr. Chairman, I feel strongly the employees deserve to be given the public credit for this. Thank you very much.

**MR. CHAIRMAN:** Mr. Ransom.

**MR. B. RANSOM:** Thank you, Mr. Chairman. First of all, let me congratulate Mr. Kives and Mr. Guelpa on the change in the financial statement from the previous year. It is evident, when one looks at the cost of the sales and the reduction in the selling, marketing and distribution expenses, that they have had a very positive influence in the areas that count.

I wonder if Mr. Guelpa could give us an indication of what it looks like for the present year. With the year-end being October 31st, and given that we are now close to the end of June, I would assume that the company has a pretty good idea of where we will stand in the present fiscal year.

**MR. R. GUELPA:** Yes, Mr. Ransom, in answer to your question, in most corporations at this time of the year we would have a good idea or solid idea of where we stand, but in our business because a lot of our sales are done by consignment, we don't know exactly where we stand on sales until we pick up the seeds which we are now in the process of doing through the summer. So it really is not until the end of the summer that we have a firm grip on it. However, judgmentally, looking at the results to date, I could say the company is going to be profitable again this year.

**MR. B. RANSOM:** When Mr. Guelpa says "profitable again this year," what is he looking at? What kind of figures are we looking at? What had he been expecting? What had he been projecting for this year? How close does he think he's going to be to it?

**MR. R. GUELPA:** Mr. Chairman, I think we'll be very close to our forecasts, and the profits will be somewhere in the \$500,000 to \$1 million range.

**MR. B. RANSOM:** I would just like to go through the report, I guess, and ask some questions on the report, but there are a few general questions we could deal with first.

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They mention the number of staff, that there haven't been reductions made in the staffing area. What numbers are we looking at now for ongoing, permanent employment? What would be the peak employment when numbers of part-time people are at their highest?

**MR. R. GUELPA:** Mr. Chairman, I stated that we obtained the results for the company without mass firings. We did have to rationalize some of our divisions. The main rationalizations took place in the field in consolidation of sales offices and sales personnel. I don't think this was to the detriment of any of our sales.

To answer the second part of your question, we have done an analysis. We come out with approximately 200 equivalent full-time people employed in A.E. McKenzie. Now this is equivalent full-time people. This varies from a low of approximately 125 people to a high of probably close to 300 people in our peak packing period. The equivalent would be approximately 200 full-time.

**MR. B. RANSOM:** How does that vary from what was in place last year or the year before?

**MR. R. GUELPA:** Mr. Chairman, I don't have the exact figures in front of me, but I would assume from looking at previous figures that they'll probably vary by 10 to 20 people.

**MR. B. RANSOM:** This is 10 to 20 fewer, or 10 to 20 more?

**MR. R. GUELPA:** Fewer, sorry. Yes, to clarify, fewer people.

**MR. B. RANSOM:** When we say 10 to 20 fewer, is that then on the equivalent positions?

**MR. R. GUELPA:** Full-time, sorry.

**MR. B. RANSOM:** So that would be then a 5 percent to 10 percent deduction.

**MR. R. GUELPA:** Yes, we could assume that.

**MR. B. RANSOM:** Last year, we raised a question about the consultant's report having to do with compensation. Mr. Guelpa didn't have the recommendations of that report at the time. He said that he would get them and see what they were. In fact, I think he said he would provide them to us. Nevertheless, did he have an opportunity to find the recommendations for that study? Did anything happen as a consequence of it?

**MR. R. GUELPA:** Mr. Chairman, yes, I managed to find the study, not the full recommendation, but I understand the consultant was making his final report as Mr. Moore and Mr. McEachern were leaving the company. Things were in a state of flux at that point in time.

I contacted him, basically went through the report. What the report stated was that some of the senior personnel were being underpaid, and some of the lower people were being underpaid. The middle management and middle positions seemed to be okay versus the studies that they had done across Canada.

Subsequent to that or previously to that report, we had already taken action on the lower paid positions,

and in fact we had increased those wages to our lowest employees, such as secretaries or telephone operators, because the company wants to pay people fairly and realize they were not.

**MR. B. RANSOM:** Does the company expect to be affected at all by the current pay equity legislation that the government is introducing?

**MR. R. GUELPA:** Mr. Chairman, we only received the details of that yesterday, although we were aware of it. We are currently studying that to see whether it has any impact on a corporation. At this point in time, I couldn't comment.

**MR. B. RANSOM:** Where does the company stand at the moment with its collective bargaining, and what sort of settlements were arrived at during the last set of negotiations?

**MR. R. GUELPA:** Mr. Chairman, our contracts are signed with both an office union and a plant union, and they run for a two-year period, expiring in the summer of 1986. The increases on average - and I'm going from memory now. It has been a year since we negotiated this. I think the overall increase was in the area of 2 to 3 percent in terms of both unions.

**HON. V. SCHROEDER:** Just further on that, to clarify, there were very significant increases provided to the office employees, who I believe in some instances received increases of up to 20 percent, the people Mr. Guelpa referred to as being very badly underpaid. People in the plant, the basic settlement was at zero for the two-year period. Both unions are affiliated with the same organization - the Manitoba Food and Commercial Workers Union.

**MR. B. RANSOM:** I'm particularly pleased to hear Mr. Guelpa and Mr. Kives comment on the state of morale at the company, because it was, of course, in a very bad state of affairs over the past year or two. Last year, Mr. Guelpa gave an indication that they would be undertaking some different sorts of management practices. I think he made references to "T" groups and I think perhaps Mr. Kives said that staff people would meet on a regular basis with the board as well. How have you accomplished the improvement in terms of staff morale?

**MR. R. GUELPA:** Mr. Chairman, I think what we basically did is that we told the employees that we care about them, and we have created an atmosphere within the company whereby we're willing to listen to useful and constructive suggestions on changing the methods within the company. I don't think that was the way things were run by previous management groups. The employees are responding tremendously to this, and the primary vehicle that we have used are "T" groups - not spelled t-e-a, as it was last year, but "T" - "T" meaning task force groups, and basically these are groups of people who are volunteers who get together at lunchtime to tackle problems that are identified by the individual members or the company, and are asked to bring forth creative and positive solutions that will contribute to the bottom line.

We recently had a review on this, and we have had a tremendous success in regular, ordinary employees coming forth with recommendations which the company has approved to improve the overall bottom line. I think we have demonstrated that we are willing to listen. That, coupled with Mr. Kives' philosophy of, whenever possible, mixing as many people as possible with the board of directors and allowing them access to it has also done a lot of good.

We have, as I mentioned last year, also implemented regular management meetings of the Management Committee, which meet on a regular basis every two weeks to sort out personnel issues or personnel problems with the company, morale issues or morale problems, so I think that we're much more attuned to the mood of the employees than a year ago or two years ago.

**MR. B. RANSOM:** Is there actually an incentive program in place to give compensation to people who come up with good ideas about managing the company?

**MR. R. GUELPA:** Mr. Chairman, that is one of the projects that we have assigned to one of our senior managers this year is to look at something which is commonly termed "gain sharing" within the industry. The procedures on this are ill-defined. There are not a lot of companies have attempted it, but I hope to have something by the end of the year where we will move the task force into a gain-sharing type of atmosphere where employees or groups of employees will be rewarded for their contribution. This has not yet been approved by the board of directors or by the government.

**MR. B. RANSOM:** Who is on the board of directors now?

**MR. R. GUELPA:** Maybe Mr. Kives could answer that question.

**MR. R. KIVES:** Mr. Chairman, presently on the board of directors, we have myself, Mr. Bill Paton, Mr. Jim Petrie, Mr. Jack Chapman, Mr. Jim Clarke, Mr. Hugh Jones, Mrs. Kathleen Roberts, Pamela Sametz, Angus Reid, and from the union, we have Brooke Sundin and Rick Kilmury, who are our worker representatives.

**MR. B. RANSOM:** How has that been working out in terms of the union representatives on the board of directors? Specifically, how have you been handling the things that people would normally see as difficulties dealing with collective bargaining?

**MR. R. KIVES:** Mr. Chairman, basically when we're discussing anything about collective bargaining, they remove themselves from the board, but otherwise, I am pleasantly pleased with the way the worker representatives are working out. There is no doubt in my mind, both Mr. Sundin and Mr. Kilmury have got the company at heart, and their suggestions are for the company's sake and not for the union's sake. They really want to make McKenzie Seeds prosper. At first, I was apprehensive, but to this point in time I'm finding it not difficult to work with union members on our board.

**MR. B. RANSOM:** I suppose that the two most significant events related to McKenzie Seeds, since we last met here, would be: (1) the fact that there has been substantial improvement in the company's position; (2) the refinancing that was done.

Last year, when the committee met, Mr. Kives used the same words as he used this year in his introduction. He said no more fresh capital. Now it's my understanding that since we met last year, the government has refinanced a substantial portion of the debt. Does Mr. Kives consider that as being fresh capital or just a restructuring using the same capital? In other words, is his reference to no fresh capital a year ago, was that in fact, carried through?

**MR. R. KIVES:** Mr. Chairman, I look upon possibly fresh capital as actually writing a cheque and putting it into the bank. I feel our company, the way we are set up, will make a profit besides the interest that would have been charged upon the loan. But the reason we did restructure is we were starting to have problems with the bank because, basically, if one looked at any other statement in a company in the private sector, we were broke. Also, we were having certain problems getting insurance on our company when we were importing certain products from Europe.

I don't really look upon the restructuring as fresh capital because I still look upon it that we have to make a profit besides the loan that was turned into equity. I mean, there is no trick to just taking the loan and making it into equity and then saying we're making a huge profit, although this year, Keith has done a tremendous job. But we still have a certain number of difficulties due to the threat of a postal strike. That hurt a certain amount of our sales because, if you are in the mail-order business, people don't order during a postal strike. But even with these problems, like Keith says, and even with the restructuring, we're still looking to make a small profit over the actual loan being turned into equity.

**MR. DEPUTY CHAIRMAN, D. Malinowski:** Mr. Ransom.

**MR. B. RANSOM:** How much equity then does the province presently have in the corporation, and are you saying, Mr. Kives, that your expectation is that the company will be able to make a profit larger than the taxpayer's cost on the equity that they have in the company?

**MR. R. KIVES:** Before I answer that, I'd like to put that question to Ken Robinson or Mr. Keith Guelpa.

**MR. R. GUELPA:** Mr. Chairman, I guess the answer to that depends on what you define as a profit or return to the government, and based on what numbers. If you are basing it on the previous problems of the company in the close to \$8 million deficit that is sitting there, that is one answer. If you base it on the recent conversion or the net of those two numbers, which is \$5 million in equity, there is another answer to that. So maybe you could perhaps be a little more specific in the question that you are asking.

**MR. R. KIVES:** Mr. Chairman, I'd just like to add to Mr. Guelpa's remarks. There is no doubt in my mind

that the amount of investment made in A.E. McKenzie is substantial to the volume of business. However, this investment and these deficits were an accumulation of many, many years - it wasn't over the last two, three or four years. If we just looked at proper capitalization, the company would be in the area of \$4 million, \$5 million or \$6 million. The return on investment would be, in my estimation, for the number of employees working, excellent.

However, the amount of share capital now in the company and the deficit, the return on investment is not as great as it should be. One also has to consider we are employing 250 to 300 people who were helping the community of Brandon substantially, and over the next two to five years the return, even on the capital invested over the past and the deficit, should be greatly improved.

**MR. B. RANSOM:** I thought my question was quite specific, Mr. Guelpa. I asked how much equity the province has in the corporation at this point.

**MR. R. GUELPA:** Mr. Chairman, in terms of net equity, the province has - I'm looking at the balance sheet - \$5 million in terms of net equity investment. Based on the figures I gave you earlier this morning of between \$500,000 and \$1 million in profit, if we saw it off in the middle, it is 750 - that's a 15 percent return on your equity invested at this point in time.

**MR. B. RANSOM:** How much money does the province have in preferred shares?

**MR. R. GUELPA:** In preferred shares, we have approximately \$12 million.

**MR. B. RANSOM:** It seems to me, from the taxpayers point of view, that is a figure that has to be considered. The taxpayers have put \$12 million into this corporation, and before the taxpayers will be in a position to have net benefits, then they will have to have an interest return on that \$12 million. If we're being told that there is simply no possibility of that because of previous losses in the company, then is the government giving any consideration to writing off any of those past losses after a fashion that was followed with respect to Manfor when the province wrote off approximately \$51 million.

**HON. V. SCHROEDER:** There is no intention of making any changes beyond what have already been made at this stage. I haven't heard of any requests by the company and there has been no consideration one way or another, but certainly there is no consideration being given by government to change the structure at this time.

**MR. B. RANSOM:** Is there a possibility in management's view then that the company will be able to make sufficient profit on its own books to be able to offset the cost of borrowing that the taxpayers have for that approximately \$12 million investment?

**MR. R. GUELPA:** Mr. Chairman, I can only answer that that is our goal, and that is what we keep in front of us. As to whether it is going to be achieved is like

staring into a crystal ball. We are only one year through a turnaround where, if we look at 1983 results, we are losing 1.3 million. We've taken that to \$135,000 profit and we're projecting better for this year. But, what the future holds, as I have said in my comments, I really can't. We feel that we have to get our profits up, but where they'll end up in the final analysis, I can't really comment at this point in time.

**MR. B. RANSOM:** I'm sure that you can appreciate that there is certainly a different perspective that the taxpayers can have. One from the statement of McKenzie Seeds, who now have had their long-term debt essentially removed. Therefore, under those circumstances, it will be substantially easier for the company to show a profit on their books, but from the taxpayers' point of view, they still have to look at the amount of money that they have invested in the corporation. That is a point, of course, that I have made from time to time.

I note in the Brandon Sun on the 16th of February of 1985 that Mr. Kives is quoted as saying, "Mr. Ransom should be more positive and not act as the opposition, but act for the betterment of Manitoba."

I wonder if Mr. Kives would like to elaborate on that comment.

**MR. DEPUTY CHAIRMAN:** Mr. Minister.

**HON. V. SCHROEDER:** Just before he does, I think it should be kept in mind that this is a company which has been in the Crown sector for just over 20 years and has been recording losses for all of that time. It is very very seldom that it has provided the public with a profit.

What the member is saying is that that entire burden of those more than 20 years has to be added on, and if you don't make a profit after recovering for all of those losses and the interest costs incurred in this current year, we are not doing our job.

I say that that's patent nonsense, and everyone understands that that's patent nonsense, because the government has lost money, the taxpayers have lost money on this company on average for over 20 years. We have lost a lot of money.

What the member seems to want to do is to have this company, which the chairman has indicated is worth \$4 million or \$5 million or \$6 million, behave as though it is worth and make a profit on the basis that it's worth more than \$12 million, and if we don't achieve that, that somehow we are a failure.

Last year we were able to come up with sufficient for more than \$1 million, which was expensed as interest costs, and in addition to that came up with \$135,000 in profit. That is excellent for a company worth this amount.

In the private sector, it would have been broke a long time ago, would be under new ownership at \$6 million approximately, and would be able to show a profit based on the \$6 million, and nobody would be suggesting that it has to make a profit based on a company capitalized at \$12 million before it's really doing its job.

What happened in the past is something that we cannot relive. We cannot pull back all of those losses,

those many millions of dollars that taxpayers have lost since 1964 up until 1984. Although we are doing our best to recoup, and did very well in this last year, we cannot work an entire miracle and I don't think the member should expect us to be able to do that.

**MR. B. RANSOM:** Mr. Chairman, the Minister is so sensitive and so partisan in his approach that he refuses to acknowledge that at the very beginning of the committee I extended my congratulations to Mr. Kives and Mr. Guelpa on what they had been able to accomplish in terms of reducing the expenses of the company and in improving the performance of the company. It is an acknowledged improvement, the very first thing that we acknowledged.

The second point that the Minister makes is the very point that I raised with him - was the government giving any consideration to writing off those past losses? Because until they are written off, the fact will remain that the province has, the taxpayers have that kind of money tied up in the corporation. The province did make a move with Manfor to writeoff some of the previous losses. They wrote off over \$51 million so that the company would be at least dealing with those past losses that related to the operation of the company and not to any kind of illegal dealings. That's why I raised the question with the Minister as to whether he was doing that. So I think his reaction is tending to be one of over-reaction.

I did want to ask a question of Mr. Kives, because he is quoted in the paper as saying that I should be more positive and not act as the opposition, but act for the betterment of Manitoba. I ask Mr. Kives if he would care to comment on that.

**HON. V. SCHROEDER:** Mr. Chairman, before we get to Mr. Kives, I would like to comment on what the member has said. We have to understand that if we simply, at the stroke of a pen, take \$6 million or \$10 million or whatever it is off our equity investment in McKenzie Seeds, that we will still be paying the interest just as we are on Manfor up North. When we writeoff the \$51 million, we are still paying it.

What the member doesn't want to do is to look at these books and say, well, this is the way it has now been restructured and that is what we are basing our numbers on. I don't think that that is an unreasonable approach; I think it's a quite reasonable approach. It is one that was brought to us by management and board and by employees after they had demonstrated, not before, but after they had demonstrated that this company and its employees were prepared to get out of the pockets of the taxpayers of Manitoba and were prepared to stand on their own and develop a product and sell a product on the market that could compete anywhere. After they had demonstrated that, we felt it was only reasonable to come up with something with which that company can live, and I believe that these people are demonstrating that they can live with what we have done.

So to go beyond this and writeoff further amounts so that we don't have to guess at the amount of interest, I don't believe would do anybody any good.

**MR. R. KIVES:** In answer to your question, Mr. Ransom, being a Manitoban, when I took on the position of

chairman of McKenzie Seeds, when I spoke to Mr. Schroeder, it was my opinion that all I really wanted to do was turn around A.E. McKenzie.

Generally, I felt that there was too much capital put into the company. However, it wasn't really necessary in my opinion to write it off, because I really like being behind the eight-ball in a sense when we are running the business. As long as we didn't need any infusion of capital, whether the company is capitalized at 6 million or 12 million is really not important. The question is that we have to make A.E. McKenzie a profitable company.

I have attended several new marketing committees, and I am very pleased to report that I am very confident that under Mr. Guelpa's presidentship, we will make A.E. McKenzie much more profitable in the future.

On the second part, we will keep employing between 200 and 300 people in Brandon. Probably with the state of the market today and the number of layoffs, company closures and the problems with companies being overstaffed, I'm very pleased to announce that I am optimistic that A.E. McKenzie will end up becoming a very nice little company.

When I made the comment to the Brandon Sun stating that Mr. Ransom should worry about A.E. McKenzie in the sense of not being opposition, but being a Manitoban and being proud that some of the Crown corporations are doing well and employing people; I don't think any government really wanted A.E. McKenzie. It was given to us. It was willed to us. The thing is to do the best with what you've got, and I think we're doing the best with what we've got.

Under the circumstances, we're not asking for any money. We're trying new things. I think we will make it a nice company. Possibly, it should only be valued at 6 million, but I don't think the real worry of Manitobans today is whether I come and ask for more money. As long as we're not asking for any more money and we're self-financing, I think most of the Manitobans will be very happy.

**MR. CHAIRMAN, S. Ashton:** The Honourable Member for Turtle Mountain.

**MR. B. RANSOM:** I'm interested in Mr. Kives' comment in the Brandon Sun, that Mr. Ransom should not act as the opposition. I'm wondering how he feels that it would be appropriate for the critic of a Crown corporation to act.

**MR. R. KIVES:** Basically, I would like being really not involved with politics. I can't really say I'm NDP or Conservative or Liberal, but my opinion is that all the politicians should be supportive of any undertaking by the governments and try to do their best, whether you're a member of the ND Party or you're a member of the Conservative Party, to try to do their best in criticisms that would help any company or help the company in being successful. Just to try to undermine for the sake of being the opposition, I'm against it.

I feel that every politician should try to make Manitoba a better place to live. By criticizing a company that's basically, I feel, in a turnaround position and probably will become a very successful small company, I was against any criticism.

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**MR. B. RANSOM:** I would like to ask Mr. Kives then if he considers that my comments were made as an effort to undermine McKenzie Seeds.

**MR. R. KIVES:** I don't think they were made to undermine McKenzie Seeds, but I read several articles before I was interviewed. I felt that the Conservative Government at that point should have, more or less, been very positive in their comments. Some of the articles I read, I felt that Mr. Guelpa, the employees in the union, etc., were not given encouragement and positive support.

I really don't think we should start making this an issue. All I am saying is, I feel we're doing our best. We are running a tight ship, and we have some new marketing ideas for the future. All I'm asking is that we work together to make A.E. McKenzie more successful in the future.

**MR. B. RANSOM:** I think it is an important issue, Mr. Chairman, because it has to do with how government operates and how opposition operates. Opposition's job is not to be a cheering section for the government, but to be critical, hopefully, in a constructive way of what the government does. There are always at least two sides to any issue.

Of course, what I was doing was responding, and by the way responding to information that was only made available to me as a Member of the Legislature by way of press release through the media, coming from the corporation. I was not party to any information directly, or that could be obtained through the Minister's Office. I would suggest that may be a practice that should be looked at.

But nevertheless, I would simply point out to you, Mr. Kives, that if I had been supportive and not been critical of the management of McKenzie Seeds in the past, you would very likely not be here today, Mr. Guelpa would not be here today, and the company would not have turned around the way it has.

I consider that the actions that we've taken in the past have been in the interests of McKenzie Seeds, very much so. I would not want you to misinterpret the intentions, my intentions or the intentions of the opposition, when we offer any criticism or another way of looking at an issue.

I would point out to you that, because it wasn't reported in the Press at the time, when I was called by a reporter and asked for comment, my very first comment was the same sort of comment that I made here today. I was very pleased to see that there had been substantial improvements in the operation of the company. I then proceeded to say, but one should not lose sight of the fact of how much money the taxpayers have invested in this corporation. Quite understandably, of course, the first part of my comments go unreported and the last part do. That's something that opposition has to accept, because it reflects the role of opposition, not to be a cheering section, but in fact to offer criticism.

**MR. R. KIVES:** Mr. Chairman, basically I agree that the opposition should voice their opinion in regard to reviewing the situation of the various companies. However, sometimes I think the opposition should also, in your own words, possibly become a cheering section.

I feel always to be just a staunch opposition is not probably the best for the province.

I understand, when I saw the financial position of the company before I took on the position, that I felt there was some mishandling of the funds, and there was something really not correct in the company. However, as I stated to Mr. Schroeder in the past, it is my opinion that most of these public companies that are owned by the Crown should be staffed on the board level by businesspeople who really have no allegiance to any party, but should be there to try to do the best for the company and also the best for the province.

I feel that the opposition . . . (inaudible) . . . but now I probably was a little upset with some of the previous comments. I had written a paper and that's why I said it, but I really had nothing against your comments and all I really want to do is get on with the job.

**MR. B. RANSOM:** Has the government given any consideration trying to either sell A.E. McKenzie or take in a private sector partner?

**HON. V. SCHROEDER:** No.

**MR. B. RANSOM:** When the Minister says no, does that mean that he does not accept even the possibility of that, that he has had no discussions with anybody about it, it's simply a closed issue as far as the government is concerned, or is he saying something a little different than that?

**HON. V. SCHROEDER:** I'm saying that the government hasn't considered selling McKenzie Seeds. It's never been raised in Cabinet. There have been people who have approached McKenzie Seeds. We've never seen any specific proposals and have had no need to really consider it from those outside people. There was one approach made not that long ago from a company and again it was never any specific suggestion of purchase, but an interest that could have conceivably been an interest to work together on some projects, possibly strengthen weak areas where this company could fit in with another. There has been no specific proposal made to me as Minister in charge from outside, and so it hasn't been something that's been considered by myself or by the Cabinet.

**MR. B. RANSOM:** I think the Minister then is saying that the government has not made a decision one way or another. Does that mean that he would be prepared to entertain proposals for involvement of the private sector or is he saying that the government has considered the principle at stake and has simply said they will not consider any outside investment and that no one should bother to put forward a proposal.

**HON. V. SCHROEDER:** What I'm saying is there's no "For Sale" sign on the door and Cabinet has not considered whether there would be anything that would happen in response to any proposal made. Our policy has not changed since the day we took office, whatever that policy might be.

**MR. B. RANSOM:** Even the Minister of Industry Trade and Technology sees that as a little bit of evasive

skating, I think, but the Minister in charge of Flyer Industries and the Minister in charge of Manfor, I believe, have been straightforward in saying that with respect to those two corporations that the government would entertain offers from the private sector.

I think it's probably correct to say they would welcome offers from the private sector, so I'm simply trying to find out from this Minister with respect to this corporation whether he sees it in that same light, or whether he sees it as one that is in a hands-off position and that they wouldn't want to consider offers from the private sector.

**HON. V. SCHROEDER:** I'm simply saying that it has not been considered by Cabinet so that I can't say one way or another.

If you wanted my personal opinion, it's all a very hypothetical area and I quite frankly haven't given it a great deal of thought in recent years. I recall that when we were in Opposition, we had some Private Members' Resolutions. There was a great deal of discussion in the Legislature, we took a position, and as I've indicated to the member, we have not had discussions as a Cabinet that would entitle me to suggest that we've changed our position from what it has been in the past.

I suppose if this company were losing money very significantly today and if it was in a great deal of trouble, we would have had those discussions. We feel that because of the positive performance of the company in the last while - I shouldn't say we, because we haven't discussed it as a group - I feel that it's not something that I would place as a high priority on Cabinet agenda at the moment.

**MR. B. RANSOM:** Well, I would just make the point that if the government was considering any kind of proposal, then the amount of money that the taxpayers have invested in preferred shares is going to be relevant and that is one reason for the government to give consideration to any kind of writeoff. Because if and when the time comes that the government wants to make a deal to either sell or take on partners, then they are going to be in a situation where they appear to have a lot more money invested in this corporation, where they do have a lot more money invested in the corporation than it's really worth, and the government will, in making a deal, appear to be giving something away to the private sector. I think the question of the equity financing of it is something a little more than just a hypothetical consideration.

I just have a few questions on the statement itself. I take it, with respect to the inventories, that there has been no change in the way that the inventories are evaluated in terms of any reflection in this statement.

**MR. R. GUELPA:** Mr. Chairman, there has been no change in the accounting policy of the company since the last audit.

**MR. B. RANSOM:** On the consolidated balance sheet, the current portion of the long-term debt, I take it that in the balance sheet that is going to come out at the end of October this year, that there will be no figure there, that there is now no long-term debt?

**MR. R. GUELPA:** No. Mr. Chairman, the corporation, if you refer to the last page, I believe, Page 8 of subsequent events, you will see the balance sheet after the restructuring, and you will note there that our long-term debt and obligations are \$1.396 million. One million of that approximately is long-term debt associated with the restructuring which we left in place basically to refer to the assets of the corporation, and 396 is previous long-term debt associated with the purchase of Pike and Robinson. So basically we have \$1.4 million in long-term debt.

**MR. B. RANSOM:** Over what period now is that to be repaid?

**MR. R. GUELPA:** Mr. Chairman, the \$396,000 is basically over a five-year period, and that's the Robinson-Pike aspect; the \$1 million, again over a five-year period, and that is to the government. So, yes, on the balance sheet at the end of year there will be a current portion there.

**MR. B. RANSOM:** And on the consolidated statement of operations, there is under Interest Expense, \$991,810.00. I would assume that a substantial proportion of that would be on the debentures that were still in place. Roughly what is that interest cost figure likely to be for this year, given the refinancing?

**MR. R. GUELPA:** The interest expense is approximately \$120,000 for 1985, long-term portion.

**MR. B. RANSOM:** And any significant change in the short term?

**MR. R. GUELPA:** No.

**MR. B. RANSOM:** I think, Mr. Chairman, that all of the other questions that I had - well, perhaps one on the long-term debt on Note 6, the promissory note repayable in annual instalments at the Toronto-Dominion Bank. Is that still in place?

**MR. R. GUELPA:** Yes, to my knowledge that is the repayment of the Pike long-term debt when we purchased the company.

**MR. B. RANSOM:** Then is the other million to the province, and is it in the form of debentures?

**MR. R. GUELPA:** The other million is to the province and it's in term of a debenture, five years.

**MR. B. RANSOM:** Just one final question. Can you give us any indication of progress with respect to the civil suit - as to where it stands today? I realize that you're not going to comment on the case itself, but is it dead in the water in terms of moving through the system while the other charges are being dealt with, or is it active?

**MR. R. GUELPA:** Basically as far as the civil suit, it was the board's opinion that we should take no action until the criminal suit is dealt with. At this point in time,



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we are not pursuing the civil action until after the trial of the criminal action.

**MR. B. RANSOM:** Mr. Chairman, I just would like to assure Mr. Kives and Mr. Guelpa that we do wish them well in their operations for the company for the present year; and I would also like to assure them that I would continue to perform what I see as my role as the opposition critic with respect to the company, and that we both have the same objectives in the long term, to see that that company is viable and it continues to be present in Brandon and to employ people and to provide the economic spinoffs that it does.

**MR. CHAIRMAN:** Mr. Downey.

**MR. J. DOWNEY:** Mr. Chairman, I have a couple of questions dealing with a product handled by McKenzie Seeds. I'm not fully aware - but what percentage of the products that McKenzie package and process are produced here in Manitoba?

**MR. R. GUELPA:** The majority of the company's products are produced in Manitoba, but I have to be careful there because we buy many products from the U.S., Europe and the rest of Canada for our McFayden Catalogue Division. They're all shipped out of Brandon, but in terms of production they can be produced somewhere else. All our seed, however, is produced in Brandon which makes up the vast majority of our sales.

**MR. J. DOWNEY:** Basically what you're saying is that the products that are handled and sold by McKenzie, the bulk of them are produced right in Brandon or in the area. Is that the production of the product or the processing? I wasn't clear on that.

**MR. R. GUELPA:** Yes, the processing of the product, the majority is done in Brandon. Seeds come from all over the world. They're not grown in Brandon or Manitoba. They come from all over the world and they're processed in Brandon.

**MR. J. DOWNEY:** There are some products though that's able to be produced in Manitoba like probably onions, that type of thing. Is that not carried out? What I'm looking at is the encouragement of people for the type of products we're processing in Brandon. That's really what I'm trying to get at.

**MR. R. GUELPA:** With respect to onions, in fact, the majority of our onions are purchased in Manitoba because the suppliers can supply a competitively priced product at a similar quality. The policy of the company is such that we will entertain offers from any company. However, quality and price must be met in order for any company to do business with McKenzie because we can't afford to sacrifice that or we won't be in business in the long run.

**MR. J. DOWNEY:** That's basically the question. What encouragement is taking place to improve quality and to improve product, or to provide product grown right here in Manitoba that can be processed in the plant in Brandon? That's really . . . the policies of the company to encourage that.

**MR. R. GUELPA:** I think there are a number of questions in there on the quality issue. The company has I think, made strides - we have appointed a quality control supervisor who is basically responsible for checking the seeds and the other products. We have made, I feel, great strides versus a year ago. As for encouragement of local businessmen, or any businessmen in Manitoba, we have not taken out ads in the paper or anything like that. We don't have the money for that sort of thing. But when we're approached by any company, if they can meet the standards and the pricing, we encourage them to do business and we don't turn them down.

In fact, I have met with a number of people in the Brandon area personally who felt that they were not getting a fair shake from the company. After I sat down with them and we went through it and they understood what the ground rules were and that we did have an open mind, they walked away saying, well, yes, we are getting a fair deal; we just can't compete in a world market. I don't think McKenzie should have a policy of losing money to subsidize any one particular segment of Canada or anywhere else. I think our motivation is to provide jobs in Brandon and not to be a drain on the Provincial Treasury.

**MR. J. DOWNEY:** Mr. Chairman, I have no difficulty with that policy. However, I think it's important, particularly when a lot of those people that live in the Brandon area - it is an agriculturally centred community - when there is provincial tax money supporting it that there should be areas of promotion for locally produced product. I'm not saying that the price should be less or more for that product locally produced, but they should be given the opportunity to carry out the kind of production activities if they can compete and produce the quality that's necessary for the continuation of markets that have been established.

The point I'm making is that possibly a greater spinoff could be made available through McKenzie Seeds to help diversification and local people in production than just the precise employment at the plant. If that's possible, I think that it should be encouraged.

**MR. R. GUELPA:** Mr. Chairman, the member is I think suggesting that we are not doing it now. I would have to correct that. We are doing it now and in fact, Aubin Nurseries, one of the larger nurseries in Manitoba, we buy the majority of our one particular Prairie hardy stock from, so we do encourage wherever we can find products. The majority of our seed products cannot be grown in Manitoba. They are from climatic conditions which are not the same as Manitoba's. Therefore, in that one area, which dominates our business, we can't entertain any quotes because no one grows the type of seed that we need. In the nursery stock area or any area like that which Prairie farmers have the climatic conditions to compete in, we do buy from them and we do encourage people because in the long run it's a lot easier to deal with someone 50 or 100 miles away than 1,000 miles away, and that's to our advantage and therefore we don't go out of our way to buy in Europe or the U.S. If I could buy all my products in Brandon, I would do so.

**MR. J. DOWNEY:** Mr. Chairman, I hope Mr. Guelpa didn't take it as criticism because it wasn't. I just hope

that every effort was put forward and I'm sure it was. I'm sure he was the individual who said that local farmers or local people had come to him wondering why they weren't getting a shot at some of the business.

**MR. R. GUELPA:** I've had a few of them.

**MR. J. DOWNEY:** It was he who raised that point. Thank you, Mr. Chairman. That's all the questions I have in that area.

**MR. CHAIRMAN:** Mr. Johnston.

**MR. F. JOHNSTON:** I'd like to ask, is the merchandising policy still the same as it has been with the policy of consigned stocks or has there been any change in the merchandising policy?

**MR. R. GUELPA:** Mr. Chairman, the policies have not changed in the seed area which consignment - seed and grass are the main areas where consignment takes place and there has been no major shift in the policy of the company in terms of assignment. However, the shift has taken place in the way that we sell into various accounts.

Now we are a lot more judicious in what we put into accounts because we realize that, on consignment, it doesn't matter if you put it in. It could come out again and you haven't made a sale, so it hasn't been a policy change. There's been a philosophy change, if anything, in our sales force.

**MR. F. JOHNSTON:** Mr. Chairman, I just didn't quite follow that. Were you saying you were being selective as to where you put consigned stock or selective as to the type of consigned stock in different merchandising areas or companies?

**MR. R. GUELPA:** Mr. Chairman, we are doing both of those. We have not changed our policies, as I mentioned, on consignment. We still have consignment for grass seeds; we still have consignment for the majority of our vegetable and flower seeds. What I was trying to get across is we're doing a much better job in where we put the consignment in a store or how much we put of consignment into a store, because it's very easy for us to show a sale, but a sale is not really a sale until after the summer when you go back and add up the product that hasn't sold and deducted from what has gone in. That is what we are doing a much better job on.

**MR. F. JOHNSTON:** Is the company still supplying the stands or is the customer requested to purchase any of the stands for the merchandising? In other words, do you own them or do they own them? Are they responsible for returning them?

**MR. R. GUELPA:** Mr. Chairman, it's common practice in the industry that all stands are supplied by the company supplying the seeds and we also have that policy in order to remain competitive. We do not charge for our stands and, yes, they remain the property of the company. But we are investigating ways - maybe I should add - in the future, to see whether we can

move to disposable stands so we don't have a portion of our money tied up in wire rack inventory.

**MR. F. JOHNSTON:** The mail order catalogue that the company has had over the past years, how is that section of the company doing? What is the percentage of the income of McKenzie Seeds on that mail order catalogue that was presented to us in committee here? Is that still operating and, as I say, what percentage of the company's income?

**MR. R. GUELPA:** Mr. Chairman, the mail order division is in fact doing very well and as I mentioned in my opening comments, the sales for the McFayden Division have increased by 10 percent versus the previous year. We feel very confident that the mail order division in the long run is going to provide sales growth for the company because it's the one area that is not stagnant. The seed business is a stagnant or declining market, whereas the mail order business is an increasing market and we hope to get a bigger share of that in the future.

I can't comment right now as to the exact percentage of our profit but I would put it in the area of 20 percent.

**MR. F. JOHNSTON:** Mr. Chairman, I know I wasn't right here at the beginning to hear the opening statement and I had to leave for about half an hour, but there was just a mention made of the seed business being stagnant and declining. Could I ask what the position is or what is being done to overcome that? Of course, you're in the mail order business, but what is the reason for the seed business being stagnant and declining? I would ask, are we in a business that is stagnant and declining?

**MR. R. GUELPA:** Mr. Chairman, there are no published figures in Canada on the seed business because the industry is not big enough to have a public reporting system, as does Coca Cola or the Ford Motor Company or GM - therefore, we have to base it on company estimates. Trends in the U.S. show that the market is declining at the rate of 20 percent a year in the seed business. The reasons for this - they're all hypothetical because no one's ever done the research to find out why.

Some of the reasons I feel the market is declining is because of changing lifestyles. Five years ago we had 25 percent of women who were working; today it's close to 50 percent and expected to go higher in the future. That means a lot of ladies do not have time to plant seeds. You also have the problem or more leisure time today. People want to spend more time in their boats or their cottages and perhaps not plant gardens. These are some of the things they're finding in the U.S. I think those patterns are similar in Canada, but we do not see a 20 percent decline in Canada. We're seeing a 1 percent to 5 percent decline in the seed market overall, and within that, people go up and down.

Yes, we are doing things to try and increase our seed sales, but sometimes it's pretty tough when the total market is declining and when you're limited by how much money you can pump into advertising due to profitability, I feel our long-term potential lies in doing a better job of what we've got now rather than necessarily trying to expand the market.

**MR. F. JOHNSTON:** To go back to the mail-order business, is it being expanded to overcome what looks like or what you state to be a declining market in the seed business generally as you stated, not so much for McKenzie Seed.

**MR. R. GUELPA:** Mr. Chairman, that's the exact strategy of the company, to try and move the catalogue division into a faster growth. It's been growing at 30 percent a year previously up until 1983 and, yes, we would like to have that go faster and to put us in a better position of not having to rely on our seed business for the majority of our profit.

**MR. F. JOHNSTON:** I don't want to assume anything - we could take from that but the position of McKenzie Seed is one that - I don't know whether it was analyzed but brought forward some time ago, that it would have to have other products rather than a seasonal product to sustain the company over a long period of time. It would seem that if you're in a declining market that the advent of year-round selling products is the one that is going to make McKenzie Seed survive. Can I ask is that going to put the company in a position of not necessarily being known as a seed company over the next period of years but a company that's basically in the mail order business supplying garden supplies of all kinds?

**MR. R. GUELPA:** Mr. Chairman, I do not believe that we are going to retreat from the main source of our business which is consumer products in the retail area. I think that's going to remain a viable area of our company. We're going to stabilize it and do a better job of managing it. At the same point in time, we're going to increase or attempt to increase our mail order sales and make that division become a much larger part of our overall company in order to diversify.

We are also looking at moving into other product lines which we're investigating at this point in time. I think the corporate overall business mission of the company is we're not going to get into refrigerators or used cars. We have stated that we are going to be in garden-related products or industries, and that's what we do well and we should concentrate on that.

We are working on a lot of projects but these take time. As I mentioned earlier, the patient has been stabilized and hemorrhaging has been stopped and now we have to get going and look to the future in increasing our sales. When you're in a market which has a one-shot window which is once a year, it's a longer process than Proctor and Gamble who is selling toothpaste one tube a month then you have 12 shots at the consumer. Basically what I'm saying in a roundabout way is, yes we're working on all those strategies and we will not lose sight, however, of remaining a dominant force in the consumer products area at the retail level.

**MR. R. KIVES:** I'd like to just, Mr. Chairman, add that A.E. McKenzie's got probably one of the best distribution set-ups in Canada in regard to supplying all the major mass merchandisers such as Woolco, K-Mart, Zellers, Canadian Tire. When I took on this position, one of the first things I said is we have to

expand this A.E. McKenzie into related products to use this mass merchandising organization that has been set up over the last 20 years. I'm very optimistic by seeing some of the ideas brought forward by management that we will expand, however, we must remember that the basic business is the seed business and the public thinks of A.E. McKenzie as a seed company. However, there are many areas that we can expand in and take advantage of our distribution system.

I think also we must advantage of our name. McKenzie still is a household name in many parts of Canada and I think we can build on this household name as being a company that has quality with the consumer as well as with the merchandiser. I feel that this doesn't happen overnight. This is going to take a number of years and I think now that we've stabilized our business, I feel we can go on to new horizons.

**MR. CHAIRMAN:** Further questions? Can we pass the report as a whole?—pass.

That brings to a close the discussion of A.E. McKenzie Company Limited.

## MANITOBA DEVELOPMENT CORPORATION

**MR. CHAIRMAN:** The next item on our agenda is the consideration of the Annual Report of the Manitoba Development Corporation.

Perhaps we could proceed then with an opening statement by the Minister.

**HON. E. KOSTYRA:** Thank you, Mr. Chairman, this morning we'll be reviewing the Annual Report of the Manitoba Development Corporation for the year ending March 31, 1984. As part of that review we also review the operations of Flyer Industries and William Clare Limited and table those financial statements.

I would suggest that given the time we have this morning that we deal with the Manitoba Development Corporation Annual Report as it relates to William Clare and when the Committee next meets, we can deal with Flyer Industries and we'll have the additional staff available at that time to deal with it.

With that, I'll just introduce the staff that is here; Mr. Hugh Jones, Chairperson of the Manitoba Development Corporation and Mr. Greg Goodwin who is the Assistant General Manager and Alex Musgrove who is the Treasurer. I think Mr. Jones has some opening comments.

**MR. CHAIRMAN:** Mr. Jones.

**MR. H. JONES:** Mr. Chairman, just by way of introduction, I confirm again to the Committee that there's been no change in the directive given to MDC in 1977 in terms of new financing activities. That is under the board's jurisdiction under Part 1 of the act, no new financial assistance can be considered.

I mentioned last year that the only exception to that directive relates directly to Flyer and on Page 20 of the report you can see what that assistance is and we can go into detail on that issue when Flyer is considered at this Committee.

Page 6 of the report before you lists the directors and officers of MDC as at year-end '84. I should advise you that effective July 4th last year the board content changed and the directors then were Mrs. Joan Cox of Lynn Lake; Mr. Ralph Nault of The Pas; Mr. Floyd Williston of Winnipeg; Mr. Oscar Carbonell of Winnipeg; Miss Jan Sylvestre of Winnipeg and Mr. Walter Kramble and myself.

Miss Sylvestre resigned in March this year and was replaced by Mr. Angus Bramadat. There's also a change in the status of Mr. Musgrove and Mr. Goodwin. Mr. Goodwin is now the MDC's Assistant General Manager and Secretary and Mr. Musgrove is the Treasurer.

At the year-end before you there was 17 loans outstanding from the old loan portfolio, the next amount owing about 9.1 million. I mentioned to the committee last year that with one exception the loan portfolio at year-end was current in terms of satisfactory performance of the business' finance and collection of repayment. Since the fiscal year-end, Paramount Bio-Chemicals owing approximately 284,000 to MDC went into bankruptcy, but the extent of the corporation's security is such that the trustee does not forecast any loss to the corporation as a result of that action.

There was also a writeoff of about 131,000, Mr. Chairman, for a company called Ajax Equipment Limited. Under Part 1 of the act which again is under the board's jurisdiction, the equity investments still relate only to William Clare, Manitoba Limited, and Flyer. Under Part 2 of the act, the equity investment consists of A.E. McKenzie Company Limited and Winnipeg Racing.

In terms of William Clare we are following past practice in tabling that company's financial statement for its fiscal year ended December 31, 1984. As I've said previously to the committee, Mr. Chairman, as long as there are royalties due in respect to the textbooks published, this matter will remain outstanding. As the years go by, the amounts received are getting less and less but it's extremely difficult for me to forecast when the thing will be completely finished.

With regard to the Saunders Aircraft receivership which has been subject to a number of questions over the years, the committee may recall my previous statement that the major outstanding, in fact, the only outstanding issue now in the receivership is litigation against Air Autonomy in Ontario, and we did discuss this to some extent last year.

There've been protracted and complex examinations for discovery during this previous year and in a report to me dated May 6th last, Price Waterhouse Ltd., the Receiver, have expressed the view that the Air Autonomy action really should be determined before the end of this calendar year, '85.

On Page 20 of the report before you, you will find the listing of the loan assistance provided under the Destination Manitoba Program; and I confirm once again that MDC, in these activities, acts as agent for the Crown for the loan component of Program 6 of the Rural Tourism Industry Incentive Program. The approval process is through a federal-provincial committee and MDC's role is to assist in financial analysis, disbursement of loan proceeds and the subsequent monitoring.

Since the end of the fiscal year, MDC has become involved in activities relating to assistance provided

through the Development Agreements Program administered through the Manitoba Jobs Fund. Although the report before you does not indicate in the schedule of assistance granted, I should advise you that during that fiscal year a loan of \$100,000 was approved to Trainex Industries Incorporated, and the reason for it not showing in the report reflects the decision made by the Provincial Auditor, we believe, in that the original program for which the loan was authorized, changed very significantly and no disbursement was in fact made until July, 1984.

Trainex Industries is a subdivision of the Eden Mental Health Centre in Winkler and was set up to provide vocational rehabilitation. The original program contemplated the purchase of an existing building and equipment, but the community directors decided instead to construct a new building to be financed eventually from the proceeds of a fund raising campaign.

The loan authorized was \$100,000 and the complete amount was paid off in March this year from the proceeds of a loan arranged through the Winkler Credit Union. It's interesting to note that the program put in place was very successful and has garnered much community support.

Since the fiscal year end also, four approvals have been made under the Development Agreement Program and although these do not fall within the year now being reviewed by the committee, we would be in a position, if desired, to provide a listing of the companies assisted. I believe that the notes to the financial statements on Pages 16 through 21, Mr. Chairman, provide further clarification and I'll be pleased answer questions at this time.

**MR. CHAIRMAN:** Are there any questions? Mr. Johnston.

**MR. F. JOHNSTON:** Mr. Chairman, the Minister mentioned that we would be discussing this morning, William Clare.

**MR. H. JONES:** Yes, I believe that statment's been tabled with you also.

**MR. F. JOHNSTON:** Yes, but we would discuss the balance of the report on Flyer at the next meeting. Is that the indication the Minister gave?

**HON. V. SCHROEDER:** No, my suggestion is that we, depending on time obviously, is that we deal with the Annual Report of the Manitoba Development Corporation and William Clare and leave Flyer Industries to the next sitting of the committee. Obviously, if we don't conclude it then, we will deal with the report itself at the next sitting.

**MR. F. JOHNSTON:** Mr. Chairman, the report on William Clare, as the Chairman has explained, has not changed over the year and as he said, it's going to remain. While there are royalties involved, the only question I would ask is in this particular instance is how long will we be involved with the William Clare or how are the funds coming in on that basis. I fully realize that this particular corporation, for all intents and purposes, is not

operating, but there are funds coming that doesn't appear as if they're coming in all that well. When will we be in a position to discontinue our relationship with William Clare or close it or whatever?

**R. DEPUTY CHAIRMAN, D. Malinowski:** Mr. Jones.

**MR. H. JONES:** It's extremely difficult, Mr. Johnston, for us to project when precisely this issue will be closed. The income that's coming in is from royalties on the continuing sale of the textbooks which this company published many, many years ago. The income comes in through a company called Houghton Mifflin in the United States and we've attempted to find out, frankly, what's left in the marketplace, but it's really almost impossible to identify.

We'd simply have to assume that this company, having started in 1972 and 1973, that we really must be getting to the end but I can't be specific.

**MR. F. JOHNSTON:** Just to get something clear - in other words, the books that William Clare developed have been sold and are in inventories somewhere and still being sold. There are no more being produced, are there? Let's put it this way. If somebody wanted these books, we're not producing them anymore. There's just some inventory somewhere? Is that the

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

**MR. F. JOHNSTON:** That's really all I wanted to know. Of course, I had asked a question and the Chairman said it was hard to tell that would stop. Just one other question. How do we know when books of theirs are sold? You mentioned a company. Is it their responsibility to forward the money? How do we know when they're sold or when there's money coming in?

**MR. H. JONES:** There's a royalty agreement in place; it goes back many years, Mr. Johnston, with Houghton Mifflin, and upon sale of any of these textbooks - it's really an automatic process. We get cheques remitted.

**MR. F. JOHNSTON:** Does this company - the automatic process of the cheques being committed, are they the ones carrying the inventory?

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

**MR. F. JOHNSTON:** And they accept orders from people throughout North America and Canada, in other words.

Thank you. That's what I wanted to know.

**MR. CHAIRMAN, S. Ashton:** Any further questions? Any further comments?

Mr. Johnston.

**MR. F. JOHNSTON:** Mr. Chairman, on the arrangement with Destination Manitoba or the Department of Tourism, does the Department of Tourism make the decision as to who the capital grants would go to and the fund just administers the money or does the fund have any input as to who receives the . . .

**HON. E. KOSTYRA:** The process under the previous Destination Manitoba Program which is now concluded, was a joint process. It was a joint Federal-Provincial Management Committee; and then there was Order-in-Council approval by Cabinet. The Development Corporation was merely administering the loan portfolio on behalf of the Destination Manitoba Program, on behalf of Business Development and Tourism.

**MR. F. JOHNSTON:** Mr. Chairman, on Page 20 of the report, the Destination Manitoba loans, the first 25,000 of the loan may be non-interest bearing. There is a forgivable percentage on those loans, is there not?

**MR. CHAIRMAN:** Mr. Goodwin.

**MR. G. GOODWIN:** The first \$25,000 of the assistance is forgivable, however, because we do not provide that money out of our capital supply, it doesn't show on our financial statements. We receive the funds from the Department of Business Development and Tourism, and then we disburse it to the client.

**MR. F. JOHNSTON:** There's quite a list of loans here in 1983-84 and I believe the first part of the statement states that you have - I'm not reading it right. On March 31st, the 19 loans you are referring to in the last paragraph don't have anything to do with Destination Manitoba, on Page 5?

**MR. H. JONES:** That's the old portfolio.

**MR. F. JOHNSTON:** On Page 20, there's a list of loans. I wonder if it would be possible for us to have the areas of these loans. Now some of them are very obvious, and I don't think we'd want to have the lists admitted to us today, but take it at the bottom here of Page 21 on the loans, we have 65683 Manitoba Ltd. has a loan at 7 percent over six years for \$150,000.00. I wonder if we could be informed as to just what that is and where it is, and as far as that goes, the balance.

**MR. G. GOODWIN:** Mr. Johnston that is to Skinner's Wet & Wild in Lockport, the water-slide concession area. The company was formed and required to be incorporated and they have chosen a number rather than a name, but it's Skinner's Wet & Wild at Lockport.

I can go through them quickly now if you like, or provide you with them.

**MR. F. JOHNSTON:** Well, there's not that many, Mr. Chairman. If he says he can go through them quickly, that would be fine. As I said there's some that are pretty obvious, but there's some that I'm just more or less interested in what they are and where. The first one, A.C. Enterprises, is it a hotel, a restaurant, where is it?

**HON. E. KOSTYRA:** I might just suggest that we take the couple of minutes, Mr. Johnston, and go through each one of them and he can give the location of them and what the activity is.

**MR. G. GOODWIN:** A.C. Enterprises is a Grand Rapids Lodge, it was an expansion; Bea-Gren Enterprises Ltd.

is McTavish's Wasagaming Lodge at Clear Lake, and that was to complete renovation and expansion to accommodate 14 suites; Bennett's Lodges Ltd. is on Nueltin Lake in Northern Manitoba, that's expansion and upgrading as well; Ken and Janet Bridgeman is KJ-5 Ranch in Rapid City and that's a farm vacation living accommodation, barn and riding arena; Canway Inns is a 14-room addition to the Roadway Inn in Dauphin; Robin and Mary Carpenter is Carpenter's Clearwater Lodge in The Pas, to expand accommodations there; Dymond Lake Outfitters is to centralize the accommodation at the North Knife Lake Lodge in Northern Manitoba; Elk Horn Ranch and Resort at Clear Lake, there is a number of phases, one to complete chalets, cabins, to complete a conference centre, dining room, kitchen, etc., to include additional accommodations; Enright Holdings Ltd., to expand by five rooms the Lakeview Motel in Lac du Bonnet; McKelvey Enterprises Ltd., is the Sportsman's Park at Clear Lake, and that's to provide bumper car rides and paved roads in the trailer court, as well as shower and bathrooms for guests; R.F. and E.G. Morris is the Cotswold (phonetic) Campground in Victoria Beach, and is to establish a campsite and facilities near Hillside; Mystery Lake Motor Hotel is an expansion of 30 rooms and a meeting room in Thompson; Northway Hotel Ltd., that's the Kelsey Trail Motor Inn, that's a 30-room addition in Flin Flon; P. & R. Enterprises Ltd., that's the Tundra Inn in Churchill, expansion of dining room and the lounge; William and Laurie Scarfe, five new cabins at Jessica Lake Lodge in the Whiteshell; Len Smith & Roy Bukowsky, that's to construct a new tundra buggy in Churchill, the Tundra Buggy Tours; Tawow Lodge Ltd., that's the renovation of the main lodge in Herb Lake Landing, which is just outside of Snow Lake; Larry Williamson of the Wild Kingdom Game Farm to re-establish the game farm near Dauphin; Winnipegosis Holdings Ltd. is an expansion of the Winnipegosis Hotel; and 65683 Manitoba Ltd., is the establishment of the water slide and amusement park at Lockport, Skinner's Wet & Wild.

**MR. F. JOHNSTON:** Was I just not listening or did we miss Hillside and Lake Manitoba Narrows.

**MR. G. GOODWIN:** I'm sorry.

**MR. F. JOHNSTON:** Lake Manitoba Narrows is obvious, Hillside is what?

**MR. G. GOODWIN:** Hillside Marina is the establishment of an in-land marina just off Lake Winnipeg to accommodate 120 boats at Victoria Beach; and Lake Manitoba Narrows Lodge is at the Narrows, additional cabins, dining room, new store, garage, and to upgrade the beach and camp area.

**MR. F. JOHNSTON:** Just on a couple of these. Larry Williams Wildlife in Dauphin, where is it relocating to?

**MR. G. GOODWIN:** Eriksdale, I believe.

**MR. F. JOHNSTON:** Erickson or Eriksdale?

**MR. G. GOODWIN:** Erickson.

**MR. F. JOHNSTON:** Last year there was arrangements being made with Erickson and the council of Erickson, as far as the town and the municipality were concerned. I recall discussions when I was at the 100th Anniversary of the Municipality of Erickson with some of them. At that particular time the arrangements were rather doubtful with the municipality or the town as to whether they were going to become involved with Mr. Williamson as far as the move was concerned. Has it now taken place? I go through there about every weekend and I know them all in there but I haven't had a chance to discuss anything with them. I just wondered what the status is now.

It did not look too encouraging last year. Of course, this is the year ending 1984 and it was last year I was having a discussion with them. In June of last year it did not look that encouraging. Has it been dropped or is it going to go elsewhere?

**MR. G. GOODWIN:** The game farm is being presently moved from the previous location in Dauphin and the various cages and animals are being moved probably at this very moment to re-establish as quickly as possible to attempt to attract as much of the tourist population in the area and the tourist revenue in the area this year, so it is being re-established at the present time.

**MR. F. JOHNSTON:** Is the municipality involved in it as well? Are they participating with some of the funding to move it to Erickson?

**MR. G. GOODWIN:** They have provided moral support. I don't believe they have provided any financial support per se.

**MR. F. JOHNSTON:** I don't want to get into an area that is not the problem of the development corporation, but I think it relates to the funding that has been presented to Mr. Williamson. Mr. Williamson has been working for a long time, as many of us know, to make a change from Dauphin. Dauphin certainly didn't want to lose him but don't want the situation right in the town. We have an amount of \$10,520; has more money been put into it this year in '84-'85 and how much is it?

**MR. G. GOODWIN:** Mr. Johnston, the total amount of the assistance under Destination Manitoba includes a \$25,000 forgivable loan which doesn't show on this particular assistance approved under The Development Corporation Act. That is the money that I mentioned before that we handle and we disburse. His total assistance through Destination Manitoba is \$35,000-and-some-odd dollars.

**MR. F. JOHNSTON:** The area that I don't want to get into that might not be related to the corporation but certainly somebody has made the recommendation on this loan now. I don't know quite how to put this other than you're dealing with wild animals. Mr. Williamson has a tendency to be able to be able to say he walks in and talks with them, eats with them and maybe sleeps with them, I don't know, but he knows them all personally. Not everybody that is going to stop and see these animals is going to be in the same position and wild animals can be very unpredictable.

It was one of the concerns of the Erickson Municipal Council and the Town Council that the facility would be properly put together on the basis that when people stop with children - and we have heard just lately of accidents with wild animals with children - that they would be caged, they would be well fenced if necessary but in the proper facility for safety of people to view these animals. I'm well aware that the corporation is not involved in the design of all this but we are putting out money and I would hope that the money is being put out and we accomplish a circumstance which is going to be of benefit to the people but also a safe situation.

Many of us have driven in parts of Canada and the United States and seen a sign on the road, come in and see the animals. Quite frankly, I never would or would encourage any of our family to just walk in and see these animals without knowing that they are properly caged. Is that the situation? Are we supplying money to something that's going to be good or is it going to be bad?

**HON. E. KOSTYRA:** I think, Mr. Johnston, when you started your question you indicated that you felt that you may be going into an area of questioning that wasn't appropriate for this committee and we can talk about the security on the loan and the method of disbursing the loan, but the approval authority rests with the joint committee that was established under Destination Manitoba. The ministerial responsibility for that program is with the Minister of Business Development and Tourism and I don't think we can provide you with the kind of detail in terms of what went into the approval process for this project that you're requesting.

**MR. F. JOHNSTON:** As I said, Mr. Chairman, I knew I was moving into an area that I didn't believe the corporation would be involved with. When we are lending money, we want to make sure that it isn't just going to be a fly-by-night operation.

**MR. CHAIRMAN:** Mr. Enns.

**MR. H. ENNS:** I have one question that's just a constituency interest that I have. Is the corporation currently considering an application from a group known as Sugar Point Enterprises - it's in the Lake Manitoba area east of the Community of Lundar - for development of a marina site, camping facilities, etc? It would be an application that would be just before the corporation for consideration at this time. My question is: is the corporation considering an application from a group by that name?

**HON. E. KOSTYRA:** The corporation doesn't entertain any application for any loan. The problem we're dealing with is the former Destination Manitoba Program, which was administered by the Department of Business Development and Tourism. The Manitoba Development Corporation was just handling the loan portfolio and administering the loans and disbursements. The approval process, the applications, was all through Business Development and Tourism and the Destination Manitoba Program. However, that program had concluded and as the member may be aware there

was an announcement in the House not that long ago that there is a new five-year ERDA subagreement for Tourism signed with the Federal Government that may entertain further applications. The corporation itself does not entertain any applications outside of those that are referred to it under the Destination Manitoba Program or through the Jobs Fund Development Agreement.

**MR. H. ENNS:** I thank the Minister for that information.

**MR. CHAIRMAN:** Are there any further questions?  
Mr. Johnston.

**MR. F. JOHNSTON:** On the development agreements that the Minister has announced lately, what is the mechanics of how that works? The development agreements are approved by Cabinet and the money is forwarded to the Manitoba Development Corporation for administration of the agreements?

**HON. E. KOSTYRA:** The process as it relates to the government, and I'll let staff of the corporation talk about their process, is that they are negotiated with the respective companies and staff of the Department of Industry, Trade and Technology and there is a committee of staff that does review and vetting of any potential development agreements. They all require reporting through Cabinet Committee and ultimately Order-in-Council approval prior to them being referred to the Manitoba Development Corporation for the loan, but maybe I'll let Mr. Jones pick up on that point.

**MR. H. JONES:** Yes, Mr. Johnston, after the Cabinet approval, the Order-in-Council is approved, then MDC takes over in terms of developing a standard letter of offer arranging to complete the security package and when that's in place, arranging the disbursement process and from then on undertaking monitoring in the way you would as a lending institution.

**MR. CHAIRMAN:** Any more questions?  
Mr. Johnston.

**MR. F. JOHNSTON:** Mr. Chairman, the Minister did answer questions in the Committee of Industry and Technology when I asked him if under the circumstances, say, of Vicon, the \$400,000 which can be forgivable and the \$600,000 which is for technology, the corporation would then make up the agreements in accordance with the original discussions with Industry and Technology as to the disbursements of money, and I will explain that by saying that the company has to do specific things and have so many people hired and a balance of money, or there's a hold-back before the total amount is paid out to make sure the company has lived up to all parts of the agreement so the Corporation will be involved in the putting together of the agreement as recommended by the Minister and administering it in that way. I believe the Minister did tell me in committee that that particular agreement does have stipulations in it, so it's the corporation's responsibility to fund the money according to the agreements. Am I correct in that?

I just would add that the corporation is the one that puts the agreements together on the basis of instructions from the Minister's office.

**MR. H. JONES:** Let me go back a bit, Mr. Johnston, if I could to clarify my earlier statement that the actual approval, of course, is at the Cabinet level and Order-in-Council approval, but the staff of MDC are involved at an earlier stage than that. We assist in terms of giving advice as to the kinds of security, the kinds of disbursement mechanisms that would be appropriate. Once it's approved by Cabinet, then the details of that approval are translated into a formal loan agreement, either a letter of offer or a more complex agreement. You're correct, Mr. Johnston, MDC does then have the clear responsibility for ensuring that the terms of the agreement are adhered to before money is disbursed and after monies are disbursed, we have a further responsibility to see that the ongoing conditions are met.

**MR. F. JOHNSTON:** Mr. Chairman, maybe the Minister can answer this. This is now revitalizing or putting the Manitoba Development Corporation back into a status that it basically was before. It had not been operating before on the basis of handling loans. I'm well aware that previously they were a corporation that could decide on loans. This now revitalizes and brings the Manitoba Development Corporation back into the business of loaning and administrating money to corporations.

**HON. E. KOSTYRA:** No, it does not bring the Manitoba Development Corporation back to where it was before. The intention is not to put it back into the situation where it was operating on its own in terms of accepting loan applications and making determinations thereon. The position is that the government has put in place a mechanism to get into development agreement arrangements with companies with respect to industrial and economic expansion in the province. When we made that determination, we looked at the various means of implementing those development agreements, and it was decided to use the vehicle of the Manitoba Development Corporation for that for the simple reason it was there; it was in the process of administering an existing loan portfolio, was involved in administering loans under the Destination Manitoba and had recently taken over responsibility for the interest rate relief loan portfolio, that it was an existing vehicle that could be used at minimal cost to the province.

Rather than setting up some other mechanism to administer the loan portfolio, it would be developing through the development agreement process. So rather than set up another system to deal with that, we decided to use the development corporation because it was a vehicle that was there and was in a position to do what was necessary to disburse and maintain the loan portfolios that were going to be developed under the development agreement concept.

**MR. F. JOHNSTON:** And the funding, under these circumstances, is forwarded from the government, from the Minister of Finance?

**MR. H. JONES:** Yes, that's correct. It's not MDC's capital at all.

**HON. E. KOSTYRA:** This is capital that is under the Jobs Fund Estimates.

**MR. H. ENNS:** Mr. Chairman, it's difficult to really discuss the Annual Report of the Manitoba Development Corporation. Over the years, it has become the receptacle of all kinds of things that haven't gone all that well for any number of government endeavours and I use the word 'government' in its broadest sense not painting any partisan stripe to it, governments of all political descriptions that, in the past, have attempted to use the vehicle of the Manitoba Development Corporation to further some form of development economic activity in the province, for reasons that need not be developed at this point, you know have not proved out.

Over the course of years, there has been such a transfer and movement of what started out to be straight loans in equity positions, into shares, that when one reads the report it's difficult to assess what the role and what the overall contribution of the Manitoba Development Corporation has been over these past many years.

It has been buffeted and directed by various governments and Ministers to take on loan obligations that perhaps, at their time or at any given time, in their own right as a corporation may not have chosen to enter into of their own volition. I now refer specifically back to some of the serious obligations that the corporation finds itself with respect to the long defunct Saunders Aircraft Industry.

Even this morning the Minister indicates that it's used as a convenient storage place to have somebody handle outstanding loan accounts for newer programs, such as the Destination Manitoba Program and we have the bookkeeping function of the corporation looking after a number of loans in that regard. The Minister indicated to me that the corporation itself is not involved in the application for it, those kind of programs or additional programs.

I'm interested therefore in what was the corporation's involvement that induced them to be party to a transportation study, as indicated on Page 19 of their annual report. It indicates a fairly substantial program of some \$423,000, of which a substantial amount was provided by the Federal Government, but I'm interested in the first instance. What was the corporation's intent to undertake a transportation study, or was it again responding to a client or another department simply to be being asked to fund the transportation study? Was it a situation of a major client, like Flyer, asking for a transportation study to be made in order to assist its position and was it the corporation's substantial involvement with a company like Flyer, the reason for their agreeing to the partial funding and the involvement in the transportation study that is alluded to on Page 19 of the report?

**MR. H. JONES:** Well Mr. Enns, I had to go back in history a little here. This goes back to January 1981, and dealing with the last part of your question first, if I could, yes it does and it did then relate to Flyer. It was associated with strong pressure upon Flyer at that time to explore offshore markets.

I did describe this in a previous Flyer committee; and in conjunction with that offshore market exploration, we became involved in a request from South America to submit a bid for a major international



tender, a bid for Flyer Buses in Peru. It's a long involved, complex history, but associated with that exercise was the need to undertake a transportation study for one of the cities in Peru.

Let me add this comment, too, Mr. Enns, if I could; that it followed precisely the provisions of The MDC Act and we received approval to proceed with it. The intention originally, I must say, today, was that MDC itself would not have been involved in that kind of magnitude of financing, but there were cost overruns, and the end result was as you see in this note.

I might also add that although the study was received extremely well in Ottawa, through primarily the CIDA people, and other international agencies; because of conditions in South America, the conclusions and the recommendations have not been taken up, and I would be the last one to say today that I would see that happening in the very near future. But it is an exercise that was, as I say, undertaken in January 1981, was related to Flyer, and was an unusual - and if I could use this word - a unique experiment for MDC. We certainly will not expect to see that occur again.

I'm not sure, Mr. Enns, whether you remember, I think at one committee we tabled this study here.

**MR. H. ENNS:** Just as a matter of recollection. Can the Chairman indicate who undertook the studies? Were they Manitoba people or had we hired some outside consultants to undertake the study itself?

**MR. H. JONES:** The lead consultant was a company called Guemili & Associates, certainly a Manitoban. Most of his associates in the exercise were from Manitoba. I believe he used one specialist in Montreal. I think there were six people involved, as I recall, in the consulting process, but of that six, five were from Manitoba.

**MR. H. ENNS:** Mr. Chairman, since that time, of course, we've had other transportation studies. One that comes most readily to mind is the very extensive multi-hundred thousand dollar study that was undertaken to find out how you'd fill an airplane up with fuel, as a result of one such plane not having quite enough fuel and having to land in Gimli. My attention was drawn to this and my memory is recalled to the particular situation that the Chairman has referred to and the timing of it.

I have no further comment to make, but other to suggest again how convoluted the process begins. We have a government-owned bus manufacturing company that is attempting to do what any commercial operation ought to be doing, expand its markets. It has opportunities for offshore markets, and then only because it's working in the government environment that it is, it finds it possible for its chief lender to undertake this study to investigate transportation requirements in the City of South America, in Peru, to see whether or not we can sell them some Flyer buses.

Well we didn't sell any Flyer buses to the City of Peru, but the corporation ends up picking up another quarter of a million dollars in charges for that particular transportation study. Marvelous.

**HON. E. KOSTYRA:** Just so that the record is clear, that was not approved by any Minister of this

government, but was approved by a Minister of the previous government.

**MR. H. ENNS:** Oh yes, Mr. Minister, I make no special claim that . . .

**HON. E. KOSTYRA:** Just making sure the record is clear. I didn't give any comment to that, just simple fact.

**MR. H. ENNS:** . . . that is relegated to a particular political persuasion. I think what it does underline is the role of governments in the kind of projects that are being financed and discussed by the corporations, Mr. Chairman.

Can the - for some clarification looking at the balance sheet, Pages 8 and 9, as it stands right now if I'm reading it right - and I'm not an auditor or an accountant - but the corporation has outstanding liabilities - forgetting all the other indications that I've indicated - of some \$14 million? — (Interjection) — the outstanding liabilities today of the corporation as listed on your balance sheet is \$14 million?

**MR. H. JONES:** No, that's not correct. Which page are you on?

**MR. H. ENNS:** I'm just trying to read your balance sheet on Page 8, Assets versus Liabilities, on Page 9 - no, pardon me, I'm looking at the advances here. You balance out. You have 27 million shown in assets.

**MR. H. JONES:** Mr. Enns, and again we're relating to Flyer here, because of the Flyer, the increasing deficit over the years, including the year under review now. The deficit of MDC has increased to 26 million. I think that's what you . . .

**MR. H. ENNS:** That's what I'm after.

**MR. H. JONES:** Not to change the topic - and this is consistent through the years, Mr. Enns, I believe; as a matter of fact I'm sure it is. On Page 10 the net income of MDC, for example, using the word "profit" for MDC, without the Flyer loss provision, it's consistently been a profit position for the last four or five years. That deficit reflects the continuing losses of Flyer.

**MR. H. ENNS:** That is entirely attributable to Flyer, the loss figure?

**MR. H. JONES:** There are some very, very minor pieces. I mentioned in my earlier comments, Mr. Enns, the write-off, for example, of 130,000 for Ajax, but essentially it's Flyer, 99 percent of it is Flyer.

**MR. F. JOHNSTON:** Just one question. I know the chairman mentioned two companies that had losses on. The balance of the companies that are the Manitoba Development Corporation is receiving payments from, are they current, are they up-to-date at the present time?

**MR. H. JONES:** Yes, every one, Mr. Johnston, the old loan portfolio is in extremely satisfactory condition.

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There really were only two accounts which I mentioned this morning which have gone out of kilter. The rest are in excellent condition.

**MR. F. JOHNSTON:** The other question I would have - there has been a new Tourism Agreement been signed with the Federal Government and I know this Minister is not the one involved with the Tourism Agreement, but will the Corporation be working with the new Tourism Agreement as they have with the previous ones?

**HON. E. KOSTYRA:** I don't believe there's been any determination made on the specific program within the various broad sectors that have been agreed to. I don't believe that there'll be anything quite the same as what was in existence here, but without prejudging a subsequent Cabinet decision, I would anticipate that if there was such a program, the Manitoba Development Corporation would be looked at as the vehicle for the maintenance of the loan portfolio.

**MR. F. JOHNSTON:** Mr. Chairman, I didn't bring this in with me. I don't know whether Mr. Enns did, but we have the Winnipeg Racing Limited. Was that given to us this morning?

**A MEMBER:** Yes, that was also given to us.

**MR. F. JOHNSTON:** This is now closed, is it? It's no longer in operation?

**A MEMBER:** It's dissolved.

**MR. F. JOHNSTON:** It's dissolved.

Is it possible to have the Flyer statement today? I don't believe that we were presented with the December 31, 1984 . . .

**HON. E. KOSTYRA:** We'll have it for the next committee meeting.

**MR. CHAIRMAN:** Committee rise.

**HON. E. KOSTYRA:** Is it the intention to deal just with Flyer or are there some further questions that you would have on the corporation itself for the next sitting?

**MR. H. ENNS:** I think our concerns would be mainly about Flyer.

**HON. E. KOSTYRA:** Just so I don't have to have all the staff here.

**MR. CHAIRMAN:** Is it the intention of the committee to pass the MDC Report?

**MR. F. JOHNSTON:** I don't think we can pass the report with Flyer in it here, can we? I'm not sure.

**HON. E. KOSTYRA:** I think we've done it before but it doesn't really matter.

**MR. F. JOHNSTON:** Fine. We can pass the report as long as we have the report of Flyer next meeting.

**MR. CHAIRMAN:** Pass the report on the understanding that the report of Flyer be discussed at the next meeting.

**A MEMBER:** Yes, will be tabled and discussed.

**MR. CHAIRMAN:** MDC Report—pass.

**COMMITTEE ROSE AT:** 12:30 p.m.