

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, 22 July, 1986

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. J. Maloway (Elmwood)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Ms. Hemphill, Hon. Messrs. Kostyra,
Schroeder, Storie

Messrs. Dolin, Downey, Enns, Maloway,
Manness and Scott

APPEARING: Mr. Murray O. Harvey, Chairman of
the Board

Mr. Spencer Balmer, Chief Executive Officer

MATTERS UNDER DISCUSSION:

Annual Report of Manfor Ltd.

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MR. CHAIRMAN: I now call the committee to order. The committee is the Economic Development Committee and today we're dealing with the Annual Report of Manfor Ltd.

I call on the Minister to make initial comments.

HON. J. STORIE: Thank you, Mr. Chairperson.

Before I begin my very brief remarks, I would like to introduce some of the people who are here with us today representing management at Manfor.

On my immediate left is the Chairman of the Board of Directors, Mr. Murray Harvey; on his left is the Chief Operating Officer, Spencer Balmer.

Behind, at the table, is the Comptroller, Mr. Derek Betts; the Manager of Finance and Administration, Mr. Bill Henderson; and the Marketing Manager, Mr. Alan Bourgeois.

I may not have the titles exactly correct, but essentially that defines their position.

The year under review has been an exasperating one, needless to say. I think most members have heard from time to time the explanations for the difficult financial circumstances that Manfor faced in the 1984-85 period that's under report. I emphasize that we're talking about a 15-month period because of the change in year-end; and I think most people recognize that much of the loss incurred by Manfor in the 1984-85 year relates to two separate things, the first being the low market price and soft markets; but the majority of the problem stems from the lack of production time, due to the upgrade in 1984-85 in the pulp and paper division.

The pulp and paper division was shut down for approximately 10 weeks out of the reporting year. That's a significant amount of time. That shut-down time, of

course, was due mainly to the upgrade and other normal maintenance shutdowns. The saw mill was shut down for approximately five months, directly because of the upgrade. So those two factors contributed pretty significantly to the loss as well as the poor market prices, etc.

I think the current year which I know members will be wanting to discuss as well, I think reflects the positive results that have come about as a result of the upgrade and the positive results of many of the other changes that have been ongoing in Manfor over the past year to 18 months.

When I tabled the 1984-85 annual report, I indicated that we were projecting a cash loss of 5.2 million for the current fiscal year. I want to confirm now that the latest budget analysis shows that we are 11 percent better than budget, that the projections of a \$5.2 million loss this year will be accurate. We will probably end up with somewhat less of a deficit than \$5.2 million on the operating side.

So I think that confirms some of my optimism that I reported earlier about the prospects from Manfor and I should indicate that Manfor is budgeting for a cash breakeven in the following year and we have every reason to believe that with the things that we have done, with the upgrading finally in place and taking hold, that that isn't undue optimism about the prospects for the future.

I should indicate that, apart from the upgrade, there have been other difficult decisions to make. Over the past years, we have reduced the staff at Manfor, both hourly and administration, some 107; that's permanent employees. As well, we have reduced our contingent of contractors by almost 100. So we have reduced the work force. We have made some internal organizational changes. We have intensified efforts to become cost efficient, to effect cost controls, and the results I think have been substantial and positive and I don't see any reason why they can't continue.

The Manfor board of directors and, I believe, management have been given a pretty clear indication of where we want to go and that is cash breakeven and financial stability and that the only way to achieve that is to make sure that you minimize your costs at every opportunity, do not rely on what has been a very unstable market as most people know. I think if we keep those objectives in the forefront, the future can be fairly positive.

So with those few remarks, I'd like to now ask the Chairman of the Board, Mr. Harvey, to make some opening comments.

Mr. Harvey.

MR. M. HARVEY: Thank you, Mr. Minister.

Mr. Chairman, the only addition that the committee might be interested in to what the Minister has said, was that the strategy for the paper mill is working. When we did the upgrade we were getting out of the checkstand market which was being seriously eroded

by plastics, and targeting on the American multi-wall market with a specialty product based on our ability to make strong paper, I reported last year that the major competitor in that market had been bought out by a fine paper company and was exiting the market. That has a mixed blessing for us because we become a single source supplier; but currently we are stretching to keep up with orders and our order book is full. We probably have about a 30-day order book, which a normal order book would be about 12 days; so the paper has caught on in the American market and we can't produce it as quickly as the market is demanding.

The sawmill, of course, we are concerned about the countervailing tariff which would be a devastation to us, if that were to take place. We are still having some difficulties in the sawmill, but are quickly coming up to design capacity. In fact, we've been there several times; it's a matter of holding it, but if the countervailing duties were to come in that would be very difficult for us.

So the turnaround continues to be - we're starting to turn it around - but it continues to be very fragile because our margins are very slim, and the only way we can see to improve our margins is by lower unit costs and productivity increases.

One of the major changes in the improvement this year is that much of the improvement is due to working on those internally controllable factors and not relying so much on what the market forces might do.

Some of the improvement is due to the upgrade, of course, and the fact that we can sell a higher grade paper and there are always some pluses and minuses as a result of the exchange rates and those kinds of things; but our difficulty in the past was the fact that, when the markets swung, we got very badly bashed around by changing prices.

So what we've undertaken to do is to put into effect a strategy that would see us working on reducing our controllable factors, our controllable costs, and I think we can see the beginning of a lot of that work coming to pass now. Some of it is still to come, but we've had some changes in the Woodlands that have resulted in considerable savings and are working at reducing the number of people to run the mill - in other words - a downsizing of the mill in terms of people will begin to show some results in the near future, although we haven't experienced some of them yet.

So my addition is, that we were right with respect to the upgrade, we were right in some respects. What didn't transpire was the market prices that were projected in the upgrade model, even though the logic of the time when they did that work was, I suppose, understandable because the markets had been improving over the last 30-40 years, even though there were cycles, that paper prices were continually going up.

We have, therefore, been able to benefit from the upgrade to a great degree, and circumstances would be a lot worse had we not done the upgrade but it hasn't been as good as we had hoped it might be.

MR. CHAIRMAN: Mr. Downey.

MR. J. DOWNEY: Mr. Chairman, and members of the committee. I would first of all like to say that I am

extremely disappointed that the Premier of the province is not here to discuss this particular report and this matter of extreme importance to the people in Manitoba on two counts really: (1) that the massive amounts of money that the taxpayers are being asked to carry, the continuation of the operation of Manfor, the importance of it to The Pas and to the working community, but probably more importantly are the conflicting views that the Minister has and the Premier has on certain issues. I'm not so sure that what we hear today from the Minister responsible for Manfor is going to be consistent with what the Premier is saying.

We've already seen the evidence, Mr. Chairman, of conflicting reports on the Brandon University, of the providing of information, both the Premier and the Minister having two different statements on their activities. So one has to really question whether we're sitting here listening to a Minister today that has the authority to say what he says is authentic or whether he'll be second-guessed or the Premier will in fact get involved. That's why I think it would have been important for the Premier to be here as well to speak to this committee.

I want to assure you as well, Mr. Chairman, and the people of The Pas, the employees, the community of The Pas, that the opposition work of this committee is not, and I will stress, is not to threaten their community and the livelihoods of those individuals; but it's to try and shed some light and add confidence and improve what I think is a very desperate situation as far as the expenditure of taxpayers money is concerned and the future viability of the plant.

I have got a series of concerns and questions and I think it certainly has to be brought to light. In doing some review of some of the statements that have been made over the past many years at this committee and different opportunities that we've had to discuss the Manfor complex, and I'll go back to approximately June of 1984, when Mr. Harvey predicted the operating deficit will be cut to 12 million for this year, meaning that of 1984, and the company will reach a break-even point by 1985. Well \$31.5 million of a loss, I think, is certainly a long way from reaching a break-even point. The whole question of all the information that has been provided over the past is not coming true very quickly, and one has to, I think, certainly say to the government and criticize them for the fact that if the upgrading means so much to the viability and the profitability of that operation, then why was there such a prolonged delay in putting it in place?

It was an election promise of 1981, that the government would provide \$10 million at that time for the upgrading. Subsequent to that it has been increased and of course we know in the last - and I think it was November of 1984 that the money started to flow - the \$10 million that the Premier said came from Ottawa was not to be sneezed at, although most agreements come to a 50-50 or a 60-40 agreement but, in fact, the Premier said the 10 million wasn't to be sneezed at. Well, he has a different tune today when we have a different government in Ottawa.

I think, Mr. Chairman, as well, that when we look at the history of the operations of the plant at The Pas, and that is the question dealing with where are we currently at with the wage negotiations and wage settlements, as I understand, they must be coming close

to the last of the current contracts and what are we faced with as far as negotiations for the upcoming period of time and the implications that will have on it.

I, as well, Mr. Chairman, would have to ask the question and would like to know, there is again a lot to be said for the fact that they're having problems, losing money with the whole start-up of the sawmill operation. Was there a holdback on the contract? Were there funds held back for those individuals that the province contracted to or Manfor contracted to, to pick up any shortfall that we are losing or Manfor is losing, as far as the operations of the start up are concerned? If it in fact it is not Manfor's responsibility for the working losses that are taking place in start up, has there been a holdback from the contractors or is there any source of funds to reimburse the losses that are being incurred by the taxpayers?

When one looks at the overall picture, Mr. Chairman, as I read and look at this financial statement - and I go to the final page of the Manfor Report, as I read it, the taxpayers of the Province of Manitoba have some \$252 million in shares, \$342,000 total in shares that we have in Manfor. We are owed \$4.6 million in dividends on Class B shares; we're owed \$6.3 million in Class A share dividends, bringing the total investment or the total amount of money . . . that the taxpayers of Manitoba to some \$265 million, in a plant, if I go back to the assets of the plant, for inventory and assets - and correct me if I'm wrong - in the neighbourhood of \$136.5 million, to lose in the last 15 months, the period in which we're reviewing, to lose \$31.3 million or \$31.4 million.

If that isn't a serious problem to deal with, Mr. Chairman, and we, this committee, can't get some answers, then I think what I'm going to have to request of the Minister and of Manfor is that we should put Manfor on the same position as the Manitoba Government are put on, and that's on a credit watch.

I don't think that once a year to deal with this kind of a hemorrhage, this kind of a magnitude of a problem can be dealt with in the period in which we're being allocated in looking back at last year's operations. I would request of the Minister and Manfor to table before us right now a six-month report. They've given us projections; the Minister is telling us we're some 11 percent better or they're some 11 percent better than what their projections were. One also has to take into account the fact that there's absolutely no depreciation taken into account of that. If one adds the depreciation into the projections then one will still be in a loss position of about \$12 million.

I don't see anywhere, Mr. Chairman, a calculation of interest. When it comes to the balance sheet I see a small interest figure there of some - I'll go to the page on which it's on and when I go to Statement 3 it's called - Other Expenses, we see interest at \$785,000.00. If I were to calculate 10 percent interest on \$265 million, that comes to \$26 million a year, the money the taxpayers are carrying, dollars that are invested in Manfor. I have to say, Mr. Chairman, that we have to have a lot more information, I think, in the next few days, if not at this committee dealing with the six-month report. I can't see why this committee or the Legislature cannot get that kind of an update.

I guess the other point that I want to make in an overall statement is, and I'm pleased to hear that the

double paper business that they're providing is showing quite a bit of promise because everything I have read, I've read in the reports, that it's the dependence on the cement bag industry and things like that. When I look at society and look what's happening in the cement industry, I don't see many people wanting to buy bags of cement. I would think that that'll go like the fertilizer or has gone like the fertilizer industry, the majority of it's handled by bulk. I'm encouraged to hear that there is a market there in the States and that it's developing in the way in which the Chairman of the Board is pleased with.

The other concern that I have and I guess that's dealing with the price of lumber. I keep hearing from this committee that we're in a continuing depressed lumber market. We hear the other side of the government saying we're seeing a tremendous increase in housing starts and the construction industry is booming all over the province. I, personally, have gone to purchase lumber in the past while and I haven't been able to determine or to detect at the marketplace any substantial decrease in the lumber market. In fact, I find it has gone the other way over the past five years. So the argument that we're seeing continually depressed lumber markets may be true in the overall international market, but I can't see that taking place here.

The other question that I have is, when will the consumers of lumber in Manitoba see a major promotion put on by the Manfor forestry products to sell lumber in Manitoba? I know that it's a competitive market but it's still, or maybe not as big as they would like, but I think we're all being encouraged to use Manitoba contractors every time we turn around. I would hope that the government policy is to use Manitoba-produced forestry products. It's only a self-help situation if that in fact were to take place, but I've never seen a major promotion of Manfor lumber products on the marketplace.

Mr. Chairman, I know that the Premier, I guess, is not going to be a part of this committee to explain what his future plans are, that the Minister has indicated some brief comments. What is the current status with the contract with the labour and the trades people at Manfor? Where are we currently sitting with the contract?

HON. J. STORIE: Just let me deal with it. The member raised a number of issues in his opening statement and I just wanted to address them.

The first was his comments about Brandon University. I'm not sure how relevant they are to the committee but I can assure the member there has been no inconsistency whatsoever. If you read the remarks in Hansard of both of us, you will find, both the Premier and myself, you will find that they've been consistent since Day One. Having said that I also take exception to the rather self-serving remark that why has it taken so long for this upgrading to be put into effect and take effect. I remind the member - and I have read the Manfor board minutes into the record on previous occasions indicating that from 1977 to 81, there was also a need to make a decision about upgrading and about staffing and manning in Manfor, and those decisions were not made.

In 1981 in November when this government was first elected, the Pawley government was first elected, a decision was made that there needed to be an upgrading. Through late 1981 and 1982, a joint study between the Federal and Provincial Government was undertaken, a decision, a mutual decision was made that a further investment and upgrading in Manfor was a logical next step in both assuring the continuance of that operation, and in terms of improving its viability. In November, if you're following the chronological sequence of events, in November of 1983 when I first assumed responsibility for Manfor, an announcement was made in November that an upgrading would take place, the Federal Government contributing approximately 20 percent of that upgrading.

Subsequent to that, the upgrade started in earnest in the spring of 1984 with the first shutdown occurring in the fall of 1984 where the major pieces of equipment were put into place. That shutdown as I indicated in my earlier remarks represented some two-and-a-half months out of the reporting period for the pulp and paper mill, and some five months for the sawmill. So that puts us into mid-1985 and later before the total operation is seeing the effects of the upgrade. So what I've said on many occasions is that the effect of that upgrade is not going to be apparent until the reporting year that is current. I've indicated here today and on other occasions that we're looking at a \$5.2 million cash loss, we're 11 percent better than budget, we're doing well, our projections seem to be holding.

We have done many other things to make sure that we do reach that break-even and operating profit level. That is what is desirable from the company standpoint, the community standpoint and the taxpayers of Manitoba standpoint, and that's what we're attempting to do. So there has been no lag, this government moved consciously and systematically from the day it was elected to put Manfor in a position where it could contribute to Manitoba's economy. We have done that. The previous government did nothing. So I don't accept that criticism whatsoever.

Now obviously in a project, the scope of Manfor, we're talking about a \$50 million upgrade - there are going to be problems. The problem that we had particularly in the sawmill with some of the computerized scanning equipment was unfortunate. The individual, the contractor that was responsible for providing that equipment, the design of that equipment has been and is date involved with Manfor, has been called back to fine-tune that equipment. But as the chairman indicated, it is reaching capacity and has reached capacity, the design specifications of that equipment. So the upgrading is completed. At this point we will have to rely on the ability of the managers and our chief operating officer and the workers to do those other things that are required to make those other sacrifices if necessary to ensure that Manfor contributes to the economy.

I don't dispute the member's figures at all about the tremendous investment that we, as Manitobans, as taxpayers, have made in Manfor. I don't dispute that for a minute. I recommend to the member, however, an historical review of Manfor, that it was not this government nor the previous government - nor the previous government - who needs to take the responsibility for the investments that have been made

at Manfor. It is a decision that is now some 20 year old and it does us very little good to reflect on whether that was a good or a bad decision.

The fact is that we now have a facility that has a replacement value of some \$350 million to \$400 million. We have a facility that employs currently between 600 and 700 people; we have a facility that is the life blood of the community of The Pas, the life blood of surrounding communities of Wanless, Cranberry, Portage, Wabowden, Moose Lake, not to mention its spinoff effect on many other communities. So I think we took seriously our responsibility, as have the boards of directors and management, to do those things that were necessary to turn it around.

I've indicated on several occasions that the decisions that were made, I think, were the correct ones. The upgrade is complete; we have seen a turnaround. We're not in the financial position we would like to be, but there has been improvement, and the commitment I have made is that we will be in a position where the taxpayers are not feeding Manfor, that it is self-sufficient. I've indicated that now - and I feel more confident saying this - with the upgrade in place and having some months behind us of in terms of its capability, that we will be at a cash break-even situation next year.

Now I recognize that both the chairman and myself predicted that a year earlier than it actually occurred. I attribute that, I guess, to a belief that the upgrading could occur more quickly than it did, but it was a major construction project and there were some problems and those needed to be overcome. But I think you have to judge the initial decision to upgrade on the results, and the results really come into effect in this reporting year and I think the results are somewhat positive.

I emphasize the fact as well that over this period of time prices still have not increased as expected - and I say, as expected, not from Manfor's perspective necessarily, but from an industry perspective - and the projections that were made over the last couple of years, in terms of Manfor's financial position, again have come from industry standards. They're not figures that Manfor makes up.

Industry analysts predict on a month-to-month, year-to-year basis where markets are going to go, whether they're going to be soft or bullish, whatever, and what prices are going to be, and we use those. Manfor management uses those in making projections about the status of the company.

So yes, we were overly optimistic about how quickly we could make those changes and how quickly they would impact upon the financial statements of Manfor, but we were a year out of line. Obviously, it took us longer to get things in order than originally planned, but the current year looks good and the projections that we have are firm.

The member also commented about the current state of negotiations. The CPU contract is up in November. The IWA contract will not be renewed until 1989.

MR. J. DOWNEY: Mr. Chairman, I want to press the Minister because his miscalculation has cost the taxpayers \$31.5 million. The statement that we heard a year ago, he says, well, so we missed by a little bit; we missed by a year. Although he's missing by a year,

the taxpayers are having to contribute \$31.5 million for a 15-month period.

That, Mr. Chairman, substantiates I think why we should have a six-month report. Every time I've read the committee hearings, sat in on this committee, always a form of optimism which, we leave the committee feeling, yes, we're satisfied that there's something being done.

I ask the Minister specifically, is there any reason why he can't provide us with a six-month report from the 1st of January to the end of June of 1986? Is there a reason why he cannot provide that to us to substantiate what he's saying in this committee?

HON. J. STORIE: Mr. Chairperson, the member requested a statement from January to June of 1986. I will certainly provide the member with that.

MR. J. DOWNEY: That's important, Mr. Chairman. I want to know when, so that we can get possibly some further questions dealing with the current status of the company.

HON. J. STORIE: Recognizing that it's an unaudited piece of information that I'm giving you? I can certainly get that to you shortly.

MR. J. DOWNEY: Thank you, Mr. Chairman, we'll take the Minister at his word that he'll provide the members of the Legislature with a copy of the first six months of the operations at Manfor, because we're not dealing with small amounts of money. That's the whole concern.

When we look at an accumulated loss over the last few years in excess of \$140 million in operating costs, Mr. Chairman, the taxpayers are asking us, as members of Opposition, what is being done about it. We are asking you, Mr. Chairman, to keep us up-to-date and keep the public up-to-date as to the current affairs, to major upgrading, as you've indicated, is being apparently the one which is going to turn this whole thing around. That's why I again go back and criticize the government for delaying and dragging their feet on the upgrading of the plant.

In 1981, there was a commitment from the province, the NDP to get on with the upgrading of the plant and it's taken four years to see any action. We're now past their second term in office, five years, and still seeing accumulating massive losses year-by-year; and it's just now coming into place. That, I think, is the basic reason why we need the report. That's why we need all the evidence that we can get to make sure that this is the whole area in which they're going to turn it around.

There's another area that I want to deal with, Mr. Chairman, and that is the possibility or the statements made both by the Minister, by the former officers of the plant, that there are some negotiations or have been outside companies in the private sector interested in the Manfor forestry complex. Are there currently any negotiations taking place on the forestry complex or are there any overtures being made to individuals or to companies that may be interested in the Manfor operation?

HON. J. STORIE: Just to deal with the first comments first. I just want to make it very clear that the member's allegation, that somehow we dragged our feet, is silly.

If you follow the chronological course of events from 1982 to 1985, you'll see that in that span we reviewed with the Federal Government, got a contribution from DREE of some \$12 million, took on an upgrading project of some \$50 million, completed it by 1985. In four years, you couldn't get yourself together enough to make a decision to lay off people in Manfor, so I don't accept that at all.

The second question raised by the member is one that has been raised on other occasions. We have had inquiries about Manfor and its operations and I believe we have had people in to review its operations. There are people interested. To date, there are no firm proposals on the table. I have indicated, as Minister, since I assumed responsibility, that we would have no objection to private sector involvement, joint venture, whatever, but that our principle was that there has to be some employment guarantee, some assurance that there would be a maintenance of employment in The Pas, for that community and other communities around.

However, and I've indicated and I believe other government's experience, including the previous administration's experience, should tell you that you cannot get a deal that's satisfactory to Manitobans under fire sale conditions. The industry has been through tumultuous times. There have been many, many paper sawmills go down, not only in Canada but around the world, and clearly it was a buyer's market.

Our strategy and the strategy I think that was concurred in by the Federal Government when the upgrading took place was that we needed a facility that could be a winner; and then the possibility of private sector involvement and private sector additional contributions and growth would be more likely and, in the end, result in a better deal for Manitobans, because we were dealing from a negotiating position of strength.

MR. J. DOWNEY: The Minister puts a figure of \$350 million to \$400 million on the operation, the plant. Is that a realistic figure? What all does that include? Is that the plant, the cutting rights, if someone would walk in? What really all is included in the \$350 million to \$400 million?

HON. J. STORIE: The buildings and equipment.

MR. M. HARVEY: The replacement value, Mr. Chairman. The replacement value, if you put it all together today, that was what it would cost.

HON. J. STORIE: Not counting the company.

MR. J. DOWNEY: Mr. Chairman, if there isn't a depreciation factor built in to your operation of costs, that it's not accruing and there's no fund being put together for depreciation, how long will the plant maintain a \$350 million to \$400 million value?

MR. M. HARVEY: I would say the minimum investment in any manufacturing facility to maintain current value, the minimum investment would be depreciation, of course; but with the technology in the industry, it's probably somewhat more than that.

MR. J. DOWNEY: But there's no depreciation factor being added into the operation costs. In fact, in the

report, Mr. Chairman, the direction from the board of directors to management states that it is not the objective to recover depreciating costs, but they're to meet all costs before depreciation for the coming year.

My question is, I would have to question the statement that there is a plant there that's worth \$350 million to \$400 million because of the factor of depreciation being added to the operational costs.

MR. M. HARVEY: Mr. Downey, the operating loss is not \$126 million, as you have stated. The operating loss, since inception, is \$10 million. If you add depreciation in, then you get the \$126 million.

The board of directors asked for a two-stage recovery because we wanted first to get cash independent in order to fund from operations. Now the board of directors said they wanted a cash break-even budget as quickly as possible. That doesn't deny the net loss, which this year would be \$12.7 million. It was just a phase in getting back to a net break-even position. We are not ignoring depreciation, except that we did not believe, given the losses that had been experienced in the last year, that they could get to net break-even. We gave them the target of cash break-even for 1986. They could not come back with that; they came back with as close as they could come and we're now targeting cash break-even for 1987; but our goal is to get to net break-even.

MR. J. DOWNEY: Mr. Chairman, back to the selling of the operation and the Minister indicated that they have had minute interest or some form of interest, have there been any negotiations or any discussions in the last year with the Repap Company who, according to reports, were not contacted the year that they were let go, a year after the election in 1981, there wasn't any further follow-up by Manfor to discuss any form of contractual or participation by them? Have there been any discussions with the Repap people?

HON. J. STORIE: Mr. Chairperson, I can only speak from my own involvement. Since November of 1983, I have had no contact with them. They have not expressed any interest whatsoever.

MR. J. DOWNEY: I ask the Minister, is he really desirous of having private sector involvement? Is it really his objective, as the Minister, to move aggressively in that direction or is he just mediocre in saying that he's prepared to let the provincial taxpayers continue to pick up the losses?

HON. J. STORIE: Mr. Chairperson, I have said I have two objectives. One of course is to ensure that Manfor moves to a viable financial position, becomes an asset - and I emphasize the word "asset" in more than a physical sense - but in a financial sense to the community and the province.

The things that have been done in the last two years lead me to believe, and I hope lead the committee to believe, that is happening; and I have said that the position I would like to be in and I believe a government should be in when it's considering a sale of a Crown corporation, a public asset, that it should be bargaining from a position of strength. That is that we have to

ensure that the facility is adequate and that its future is optimistic. Then there is room for discussion, and I can indicate that I will be more aggressively pursuing the possibility of private sector involvement.

There are some interesting possibilities of expansion I think there are opportunities for joint venture, for greater involvement of the private sector; and I can assure the member that over the coming months I will be contacting some of the private sector companies with a view to discussing options.

MR. J. DOWNEY: The Minister says, "in the future" and "some companies." Does he have any one in particular that he could identify for us that he has possible options to discuss this matter with, who he's proceeded to discuss this?

HON. J. STORIE: There are some who, as I've indicated, expressed interest and reviewed the possibilities, but at this point it would be somewhat premature to identify them, I think. There may be others out there that are interested and have not made overtures at this point.

MR. J. DOWNEY: Mr. Chairman, I take it from what the Minister has said that he is actively seeking participants from the private sector. Is that a fair assessment from what he's said in the past?

HON. J. STORIE: I think that would be a fair assessment.

MR. J. DOWNEY: I notice some reluctance from the Minister in proceeding to get into naming any particular individuals and he may have some negotiations. Maybe it wouldn't be fair at this time to disclose publicly; however, I would request of him that he be prepared to table in the Legislature any Letters of Intent or any documentation between he and individuals or the private sector so that we can scrutinize the activities that are being carried out with public funds. Will the Minister give us that assurance?

HON. J. STORIE: Mr. Chairperson, I wouldn't want to mislead the member or the committee in terms of any negotiations that are ongoing. It involves essentially inquiries, review of the operations at this point; there have been no proposals. I also indicate that I'm not adverse; in fact I would look forward to private sector proposals that involve the expansion of operations certainly in the area.

MR. J. DOWNEY: Mr. Chairman, I asked the Minister what his proposal would be. Would he be placing on the market, using the value of \$350 million to \$400 million, is that the kind of value that he's talking when he's talking to or will be talking to the proposed purchasers or will he be looking at the matter of recovering the losses to the taxpayers of Manitoba and also the employee assurance. I know that will be part of his - I think he mentioned earlier that would be part of any discussions that take place. What has he got in mind for the taxpayers of Manitoba as far as the sale value or a portion of it is concerned? What figure base is he working from?

HON. J. STORIE: Obviously negotiations are negotiations but that would depend very much on what

kind of a proposal one would get. One could see the opportunity for an additional paper machine or two; a secondary manufacturing facility to operate in conjunction with the products that Manfor already produces. It would depend on the investment intention of any private sector company, it would depend on guarantees respecting existing employees, return to the province, obviously. So I think until we see a proposal from someone who has a genuine interest, it would be premature to speculate on what kind of conditions one might attach to any sale or any joint venture.

MR. J. DOWNEY: I want to remind the Minister that he's acting on behalf of the taxpayers of Manitoba and it would be, I think, important for him to lay out some of the things which he is prepared to do to protect the taxpayers' interest. I appreciate that there are a lot of negotiations to go through but he must have some form of guideline basis from which he is prepared to work; a bottom line. That's what I'm trying to get out of the Minister; does he have a bottom line on what he's prepared to take for the operation or a portion of it? What base is he prepared to work from?

HON. J. STORIE: Mr. Chairperson, I guess, you know, I'm speaking off the top of my head because obviously until you see a proposal and what's involved it's difficult to speculate; however, I would say that essentially there are two bottom lines. No. 1 is employment and No. 2 would be additional investment.

MR. J. DOWNEY: The reason I am pressing the Minister is because we've seen some NDP negotiations and some sales of other Crown corporations that we have virtually paid companies to take over the operations of some of the Crown corporations. That's the kind of bottom line that I'm talking about as far as the operations are concerned with Manfor forest products. Does he have a bottom line? Is he going to assure the taxpayers of the Province of Manitoba that they will get full recovery of the money they have invested in that operation?

HON. J. STORIE: Mr. Chairperson, I think I would be foolish to suggest that Manitoba taxpayers could expect full recovery on the operations given its history. I think I can indicate that any negotiations should and I believe would recover for Manitoba over time that investment. Obviously the continued employment in The Pas and area is the key. Any additional investment which might come by way of private sector involvement obviously would only add to the net benefit of the operations that are currently there.

MR. J. DOWNEY: The reason I'm asking the question, Mr. Chairman, because he sits in a Cabinet with a colleague who has now made some significant changes to a contract to request that the beef producers in the Province of Manitoba pay funds back through the form of increased premiums or lower support level; some probably 5,000 livestock producers of which are called upon to contribute a substantial amount more money. What I'm asking is for fair play; I'm asking for a fair and just society as so many politicians talk about. I'm

asking the Minister if he's prepared to make sure the taxpayers will be assured that there are no major losses of taxpayers' money when in fact he is going to the negotiating table on their behalf.

HON. J. STORIE: Mr. Chairperson, all I can indicate is I've set the parameters for any negotiations. I believe that there are some pretty substantial differences between the situation at Manfor and other Crown corporations, both provincially, in other provinces and in the Federal Government's system of Crown corporations in that we have, over the last few years, invested substantial amounts of money to ensure that we are in a position of offering private sector involvement in a company that has a future; that has made the tough decisions already and it would be seen as a viable and attractive alternative. I think that more than anything else that I can say offers the assurance that if negotiations were to be concluded with some private sector partner, the taxpayers would be net beneficiaries of those negotiations. Obviously that's my goal. I would give you my assurance that is a prime consideration and would be a prime consideration in any set of negotiations.

MR. J. DOWNEY: Mr. Chairman, I go to Statement 3 in the report. Could the Chairman give us some breakdown as to what percentage the cost of sales; what's it break down to. Is that mainly for example, wages, hydro, that type of thing. How does it break down the cost of sales; what is the main makeup of the \$73 million?

HON. J. STORIE: Mr. Chairperson, before Mr. Harvey comments, I would like to - I'm not sure whether members have the 12-month figures. I believe there were some questions - do you have the 12-month figures? Okay good. — (Interjection) — No, for '85. Do you have the 12-month figures for '85? Would you like them? I could give them out so that you could see some comparison between the sales and the expenses for the 12-month period '84-'85. Is that something you want? Pulp sales, pulp and paper 53.7; 2.2; .7; 54.9; 7.7; 9.8; the total for expenses would be 272. I'm sorry, sales would be 53 and 2 which is a total of 56. Does that add up?

MR. M. HARVEY: 56.6.

HON. J. STORIE: Right, 56.6. The total for expenses would be 72.5; operating loss would be 15.9; in the category Other Expenses it would be .73; 6.6 and (.029), with a total of other expenses of 7.3; for a net loss of the period of 23.2.

MR. HARVEY: Yes, Mr. Chairman, to answer Mr. Downey's question. Cost of sales is a total cost of harvesting and converting wood to paper or lumber. So it's actually the manufacturing cost.

MR. J. DOWNEY: What is the labour component of that part of the operation?

MR. M. HARVEY: The labour component is actually in two parts. There is Woodlands labour is 16 percent

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and salaries and wages is 22. The total labour including Woodlands is 38 percent.

MR. J. DOWNEY: The cost of the other part of that would be made up with what type of expenses basically? What would the other 62 percent be made up of basically? What's the other large element in that expense?

MR. M. HARVEY: Mr. Chairman, the other elements are 16 percent wood fibre excluding labour; 12 percent energy; 12 percent materials; 11 percent selling expenses; 6 percent depreciation; and 5 percent general administration. Now, I would add that these are approximate costs.

MR. J. DOWNEY: The energy cost, is that basically hydro-electric power or is it mobile fuel for the operation of trucks and skidders and that type of thing? What is the energy component?

MR. M. HARVEY: Yes, Mr. Chairman, the energy cost is basically steam. We generate our own energy at the plant - we do use some hydro - but we have a steam plant that electrifies the mill.

MR. J. DOWNEY: So you're basically, you could say, pretty much self-sufficient in the production of your energy?

MR. M. HARVEY: Self-sufficient to the degree that we also use oil in the mix, like there's a bunker C mixed with the sawdust, but we have a capacity to run without hydro, yes.

MR. J. DOWNEY: Mr. Chairman, the operational costs, there's an emphasis from the management, from the Minister that they're continuing to reduce operational costs. A large component of the operational cost being 38 percent labour, they make reference to lay-offs. In the whole modernization of the operation and the whole proposal that we're looking at in the future, does the Minister or does Mr. Harvey see the reduction of that 38 percent in labour cost? Does he see it increasing? Or what is that projected to do in the coming years?

MR. M. HARVEY: Mr. Chairman, given the fact that labour is a major component of labour costs, all labour costs, part of the action taken so far in the lay-offs was designed to reduce that, and we are targeting a further reduction in unit costs, so part of that we would see labour costs going down to some degree. We feel that all costs are high and they have to come down, and we can't do that without working that large component as well.

MR. J. DOWNEY: Just looking at any statement of any business when you're looking to follow along the line of thinking that management are talking, the Minister is talking, the first place to start is in that area. I just wonder and I certainly know that people have got expectations and they've got commitments and there are problems when you start talking about the lowering of wages or the concern for the whole operation.

The basis of which I'm bringing this question when you're looking at this, has there been the relationship

with the whole operation and I understand there's some representative from the labour side of the plant on the board as well? What kind of recommendations? I mean, is it perceived as we've all got a problem? Or is it the government that has a problem? Or how is it being worked on? I'd like to get an understanding of how that whole thing is being worked out.

HON. J. STORIE: I think that's one of the reasons why I'm more optimistic now than I was perhaps two or three years ago about the prospect. There is much more a "we" feeling that if sacrifices have to be made and I've indicated that we're down 107 permanent staff plus probably 100 contractors, that the sacrifices have to be spread throughout the system.

Basically our objective and the board of directors have indicated this pretty clearly to management and to both unions that we're serious about the target of cash break-even and turning the company around and maintaining that kind of a base; and discussions have been initiated with both unions and discussions are going on at all levels about the potential for a cost reduction, reduction in operating expenses and those include obviously labour costs. It's something that has to be taken seriously if the objective of reaching a profit situation is going to be realized.

So it is something that, I think, all people not only in the work force at Manfor but the community are aware of.

MR. J. DOWNEY: Mr. Chairman, it seems to me that we all want to preserve the job - each job is important to each person - and one looks at what's happening throughout and I make reference to a lumber mill in B.C.

I recently saw or read a report that there was some major - I believe the plant was either threatened to be shut down or did shut down. It was taken over by the employees to start back up. They were decertified and they had a considerable amount of problems with some of their union people, but eventually, from what I've heard, they've been able to get it on track and now it is perceived to be a profitable operation.

In these kinds of discussions, I'm wondering if at any time there have been any recommendations or any considerations to either holding back on increases, rolling back of some of the wages that are now being paid to maintain the numbers of jobs, rather than cut out the individual who is needing that job and say we need less people, but an overall backing-off of the demands that are being put forward.

I'm not talking about bashing anyone. I think this has to come through reasonable negotiations and discussions. What I want to know as a person who comes from an agriculture community that is facing a 20 percent reduction in wheat prices this coming the 1st of August, that I can't demand from society a 10 percent increase in my wages or a 5 percent increase in my wages because it just isn't there.

So, what I'm seeing happen at Manfor is that we are seeing a continuation of losses; we're seeing major stresses put on people who are trying to turn the plant around - although I have to say one of the former top paid staff I don't think had a lot of stress; they had a fairly good deal - but I'll get into that a little bit later.

The point I'm trying to make is: is there a collective feeling there has to be a reduction or a hold-the-line throughout the system so we can see the kind of the profits; so we can see the removal of the losses and hopefully get into a break-even position in the near future?

That gives me some confidence if in fact there's that kind of attitude amongst the total participants in that operation.

HON. J. STORIE: Just two comments then I believe the Chairman of the Board wants to comment.

Yes, I believe there is that feeling. I guess one of the indications is that some year-and-a-half ago I mentioned the possibility of an employee co-op, some kind of profit-sharing arrangement to be made in lieu of wages - loss-sharing as the member jokingly replies. I raised it with them. There was not much interest. Subsequently that, I believe, the IWA has expressed an interest - in fact, is studying some of the alternatives with respect to gain-sharing and the possibility of the employee recognition on a different scale. So, there is that recognition.

The Chairman, I believe, had some comments.

MR. M. HARVEY: I'd like to add I'm not certain we're talking about the same mill, but we did send one of our managers in company with union people out to B.C. to take a look at one of the mills that had been taken over by the workers. I think the union stayed intact in this one. They went out and looked at it and found out what was required of them, and we're still working on it, but they haven't come back to us yet as seeing that particular model as being attractive.

We've had ongoing conversations at the board, but I think more significantly, since Mr. Balmer has been in place, he's developed a committee he calls the UMEC committee which is the union executive and the management of the plant, and they are working on these very problems - how do we get the costs that we all have to get down to where they should be, and what are the options. The idea being that when we come to the conclusions we'll inevitably come to, we come to them together.

Now, I would like to think that's going to work smoothly, but I don't think it will. I think there'll be pockets of resistance. I think there are a lot of people up there who have the message now, but there are a few that haven't and we have to work on them as well.

You're right, that's the direction we're trying to take and we've got some positive signs. We've had some difficult times trying to sort it out, but the fact of the matter is that choices about jobs are there that have to be made, whether it's some jobs or all jobs or everybody stays with less or what can happen. It can't go on the way it is, and we're trying to get that awareness throughout the plant.

MR. J. DOWNEY: Mr. Chairman, the point that has to be made, and I hope the Minister of Finance is listening carefully, because he is calling upon the taxpayers of the Province of Manitoba to be the bank. When I run into difficulty in my business, be it farming or anything else, I have to go before the banker to make my reasons for what's happening and what I'm prepared to do. For

this particular committee, we are representing the taxpayers of the Province of Manitoba and they're putting the funds in. I can tell you from a lot of the areas of the province, there's some reluctance starting to come forward that everybody is going to have to take a little bit of the squeeze. When I look at some of the wage rates, I'm sure they're not enough, in the society in which we've all become accustomed to living of \$17 an hour and \$12 an hour which have increased over the last three years by 8 percent.

It's tough to talk this way, but when you see competitors like we talk about in B.C. - I don't know how directly dependent they are - taking less money so they can maintain their jobs; when we look at what's happening - and I don't suggest it for any minute this would be the magnitude of what should happen - but it's one of the things that has taken place in other parts of the North American continent.

In the copper business, where copper prices dropped from \$1.60, there was a reduction of 20 percent to those people who worked in the copper business. I'm not suggesting that should take place of that kind of magnitude, but I think society are saying, and I'm telling you, they're saying look, when I as a farmer or we as society are having to take less, hopefully, to stay alive in the longer term, then I think to be fair and equitable everybody has to do that; don't call upon me as a taxpayer to contribute to someone who, for certain reasons, is putting demands on us we can't afford.

I'm encouraged and I would hope we don't get ourselves into a situation where if there is a potential purchaser, portion purchaser, that it is not put in jeopardy because of some of the demands that are going to be placed on them.

As the labour legislation demands in this province - if I'm correct - that any takeover or any portion of a takeover, they would have to carry on with the wage settlements or the agreements that are in place. They wouldn't agree to negotiate on their own behalf. Their hands would be tied. I'm saying I think everyone has to appreciate till we come to grips with this portion of where we're at with Manfor and companies such as that, we're going to have difficulty.

I just want to go back; there's an area which I questioned in my overview comments. The Minister indicated the people who put in the computerized equipment are back helping to make sure it works.

I'm not sure. Is it a \$5 million start-up loss that is being paid for by Manfor? Is that an estimated figure? It's in excess of \$5 million that is put in the statement that it's costing the taxpayers . . .

HON. J. STORIE: That's development costs.

MR. J. DOWNEY: . . . because of malfunctioning or lack of equipment being operated correctly. What was that figure?

HON. M. HARVEY: Those are the start-up costs you're referring to, \$5 million, but it's not related solely to problems. It's just the effect of shutting down and starting up and learning how to run the new equipment. That's the total cost of the upgrade down time, if you like.

MR. J. DOWNEY: What is the estimate of loss to Manfor because of the equipment, losses due to equipment

or directly related to non-related startup? Is there a figure on that?

MR. M. HARVEY: We may be able to get it in a minute, at least an estimate.

MR. J. DOWNEY: Well, the question is: was there any holdback from the contractor? I mean, that's the question. Was there a holdback from the contractor who provided the equipment and the service to make sure that the operation of the plant was going to be correct?

MR. M. HARVEY: The answer to that question is no. There was no holdback for the automatic equipment sum.

MR. J. DOWNEY: Why wasn't there a holdback of some funds to make sure that it was operational?

MR. M. HARVEY: When you purchase equipment, there isn't normally a holdback. There was a small amount owing before things got rolling, but I think once the equipment was delivered the purchase contract called for a payment on delivery. I believe that's correct.

HON. J. STORIE: It's not like a construction.

MR. J. DOWNEY: What was the amount of the contract?

MR. M. HARVEY: We'd have to get it. We can get it to you if you wish.

HON. J. STORIE: We can get you that figure. Could we get a ballpark?

MR. J. DOWNEY: Well, I just question the business practice of operating a plant that large and putting a lot of expensive equipment in, that there wasn't some form of protection put in place for the owners of the plant, the taxpayers, as to making sure that there was some commitment to make sure it was operating to the satisfaction of the purchaser. I think it's a standard procedure, as far as any negotiations or any purchasing are concerned. At least, I would think it would be.

HON. J. STORIE: Well, the information I have, Mr. Chairperson, to the question the member asked is the equipment was somewhat less than \$1 million. It was a piece of equipment. It wasn't a contract per se.

However, the operators, the suppliers, designers do have an obligation to ensure that the equipment is operating as designed, as specified in whatever their sales pitch was; and secondly, that Manfor has not given up the option of a civil suit in the event that they're not satisfied and that the equipment doesn't meet specifications or cannot meet specifications.

MR. CHAIRMAN: Mr. Balmer.

MR. S. BALMER: Perhaps it's worth noting that the electronic equipment that was purchased for the sawmill was at the forefront of technology. Like anything else, when it was installed, there were problems with it. The

companies involved have been working steady at it since the day it was installed. They have not washed their hands of it and left us hanging dry. There is more than one supplier involved here, because it's a complicated issue of measurement and computing.

They left the plant actually the first week of July, and the equipment has been running satisfactorily since the second. I believe the problem is past us. Those who understand anything about computers will understand that it was a combination of hardware and software.

MR. J. DOWNEY: Thank you, Mr. Chairman.

I know some of my colleagues have some questions to ask. I have one more before I yield the floor, just dealing with the lumber market. I asked some basic questions earlier as to why there wasn't a promotion of the product in Manitoba. What I've heard from certain areas of this particular government, and it's reported that housing starts and the construction business is booming. What has been the market trend over the last three years? What is it projected to be over the next two years as far as the lumber portion of the industry is concerned?

I'm talking both domestically and internationally. I realize that any tariff action by the United States would have a major impact. What about the Manitoba, the Canadian market as far as the Manfor mill is concerned?

MR. M. HARVEY: I guess you had two questions there, Mr. Downey. One was price. The price of lumber hasn't gone the way the price of paper has, as you probably know. If we implied that it was a poor market, it was not intentional. It's not a poor market. The current net selling price is \$220 per 1,000 board feet. In 1980, it was 270.00. But it's just one of those commodities that, since 1950, hasn't really moved that much, although it does have peaks and valleys.

The distribution or destination of our sales in 1985 for the 15-month period, 63.8 percent of the output went to Manitoba; 1.6 percent, Western Canada; 1.1 percent, Eastern Canada; and 33.5 percent into the U.S.A. Now, we believe that there is every likelihood that a lot of the lumber that is shown as destination Manitoba is resold in the United States, because we sell it through brokers. So we think there's a lot more of that goes.

Now, 1985 again is not a good year to get those kinds of numbers, because of the time that we were down and having lumber available when the market needed it and so on. Our more normal year was, I would say, 1984 where 39.7 percent went to Manitoba; 1.7 percent to Western Canada; .2 percent to Eastern Canada; and 58.4 percent to the United States.

MR. J. DOWNEY: Mr. Chairman, what is the policy as far as employees are concerned in the purchase of lumber from the mill?

MR. M. HARVEY: They are allowed to buy lumber in lift commodities. In other words, you can't break a bundle. They pay the mill net price.

MR. J. DOWNEY: In other words, that's another benefit that they have which, I would say, is a considerable benefit when one looks at the cost at which they would

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be able to buy it at compared to the average consumer. Is that correct?

MR. S. BALMER: To clarify that just a little bit, this has been a controversial issue on the part of the labour group who feels strongly that they should be able to buy our lumber at something that might be considered a subsidized price. Our policy was established in the past year, and the policy in stating that we only will even consider it as a total lift has left out almost all the employees opting to buy lumber from us. To my knowledge, we haven't made any sales to our employees.

MR. J. DOWNEY: When you go to a quantity basis it eliminates the numbers of individuals who are able to handle that kind of capacity. I'll yield to Mr. Manness.

MR. CHAIRMAN: Mr. Manness.

MR. C. MANNES: Thank you, Mr. Chairman.

I'm wondering if the Minister can provide for me some more detail associated with the 1986 budget.

He's indicated that the forecast is for an operating loss on a cash basis, net \$5.2 million. Can he provide a further breakout with respect to sales and expenses, using the model on the same page, entitled Statement 3?

HON. J. STORIE: The member is asking for detail?

MR. C. MANNES: Yes.

HON. J. STORIE: Year-to-date, Cash Loss, yes.

MR. C. MANNES: Mr. Chairman, late in 1985 a budget was developed for 1986 which has allowed the Minister to come before the House some several weeks ago and indicate that the forecast of net loss, cash loss would be in an area of 5.2 million. That number had obviously come about as a result of the forecasts of pulp and paper sales and also expenses. I was wondering if he'd provide that for the fiscal year 1986.

HON. J. STORIE: The projections?

MR. C. MANNES: Yes.

HON. J. STORIE: Not the actuals.

MR. C. MANNES: No.

MR. M. HARVEY: The total volume for 1986 is 131,408 tonnes of pulp and paper; total lumber is 49 million board feet; the sales I think is the figure that you're interested in - the projected sales for '86 are: paper 73 million - no sorry, the total gross sales for the year are \$88,000,466 and the total cost of sales is \$70,000,276. We are anticipating a net loss of \$12.7 million, 706 actually and a cash loss of \$5.2 million.

MR. C. MANNES: Can Mr. Harvey tell me what I'm missing basis the numbers he has given me showing sales revenue at forecast at 88.4, expenses at 70.2, and yet still an operating loss.

MR. M. HARVEY: You have a GNA of 17.7; general administrative cost 17.7.

MR. C. MANNES: Well, Mr. Chairman, I assume the 70 million was the total expense but it's just the cost of sales. Can Mr. Harvey then give me the other two components: selling expenses and general administration?

MR. M. HARVEY: Okay, selling expenses 12.6, total cost of sales 70.2, general administrative expenses 17.7. The difference between the net loss of 12.7 and a cash loss of 5.2 are noncash costs of 7.4.

MR. C. MANNES: What's the total expense figure then? I guess I could add it up; but it must be roughly ninety?

MR. M. HARVEY: Gross sales plus loss would be 100.

MR. C. MANNES: Well, Mr. Chairman, these are all cash components, I believe, certainly the expense is 100 million. There is no factor in there for depreciation, that comes down lower.

MR. M. HARVEY: Yes, a depreciation is included in the 12 million. If you add the 12 million on, the depreciation is in the 12 million.

HON. J. STORIE: It's a loss plus depreciation.

MR. C. MANNES: I would ask Mr. Harvey why there is such a major increase in general and administrative because I have now, Mr. Chairman, basically three series of numbers. I have the 12 months '84 figure of 8.6, I've got the 12-month '85 figure of 9.8 and then the 15-month figure for '85 of 12.6, and now the new budget figure for '86 jumps up to 17.7. What would be the reason for an increase of roughly 50 percent?

MR. M. HARVEY: Yes, as he's getting those numbers together, the difference in '85-'84, there's about \$2 million there in the 15-month differential and the other significant costs were upgrade travel and training - as was due to the upgrade - there is also the other significant factor with some overlap in salaries as people left and people came on. But that's the difference between those two and we'll get you the one between 12 and 17. He's working that up right now.

MR. C. MANNES: Well, Mr. Chairman, let's go back 12 versus 12; 9.8 versus 17.7. That's an increase of 100 percent. Mr. Harvey says it had to do with travel and upgrading and then I take it there was also some severance amounts there, too, but could you provide a greater detail associated why that one factor alone would increase 100 percent?

MR. M. HARVEY: Are you comparing the '84 and '85 now?

MR. C. MANNES: No, I am comparing the 12-month period which would be September '84 to September '85 with the budget for 12 months in 1986.

MR. M. HARVEY: Yes, he's looking those figures up right now. We'll have them in a minute.

MR. C. MANNESS: Mr. Chairman, Mr. Harvey did provide for my colleagues some breakout with respect to labour and maybe I wasn't listening totally but it seemed to me like he had listed two or three labour components. I'm wondering whether he provided the breakout then on the basis of the total expenses or on the basis of the cost of sales. I think that was the question posed by my colleague. He was wanting to know in the cost of sales figure what percent of it was labour and then Mr. Harvey went through and listed about six or seven components. I couldn't help but notice where other labour came up again at 16 percent and that there was another selling factor. So I'm wondering again if he could just clarify those percentages whether they apply to the total expense figure or whether they apply to the cost of sales . . .

MR. M. HARVEY: The figures I gave you are total expense figures. The total labour including Woodlands labour is 38 percent. The breakdown is 16 percent Woodlands labour, 6 percent salaries and 16 percent wages other than Woodlands labour.

MR. C. MANNESS: Okay, so then the 38 percent is the combination of the two 16's plus the 6.

MR. M. HARVEY: Yes, correct.

MR. C. MANNESS: Mr. Chairman, I'd ask then, Mr. Harvey, whether those breakouts with respect to labour in that total global percentage of 38 percent will hold for the 1986 budget year or will it diminish, keeping in mind, as the Minister has indicated earlier on, that great emphasis was now being placed on reducing costs, particularly those that are controllable?

MR. M. HARVEY: The figures we're giving you are estimates based on the previous year, 1984. The labour figures in 1986 will be less.

MR. C. MANNESS: Mr. Harvey, in response to a question earlier with respect to the energy indicated that, of the total cost, 12 percent of it was energy, although further on he indicated that significant portions of energy were derived from on-site usage of by-product. Can Mr. Harvey then, just for the record, clarify that the large component of 12 percent energy, whether that's secured from other sources of energy that are brought on to the work site - and I'm thinking specifically of hydro and/or fossil fuel.

MR. M. HARVEY: Yes, there are three sources of energy: our hydro, oil and hog fuel, which is sawdust.

MR. C. MANNESS: Mr. Chairman, I'd like to have a little bit more detail associated with the sales component.

Mr. Harvey indicated that 73 million was forecast for pulp and paper in 1986. I don't have a lumber figure. Could he provide that?

MR. M. HARVEY: \$10.9 million.

MR. C. MANNESS: Mr. Chairman, I'm troubled a little bit by what the Minister or the former Minister of Finance indicated to me in question period the other day when he said that two-thirds of all Manitoba's Manfor product - and I think he said lumber - is exported to the United States. Is it safe to assume that he meant two-thirds of all Manfor's production, in its two forms, ultimately is exported to the States? Is that a fair comment?

HON. J. STORIE: I think it's probably accurate to say that two-thirds of the lumber is exported. I think what has been indicated is that some of the lumber that is shown as sold in Manitoba is actually sold to brokers who then resell it into the United States.

If I could just give you some figures over the last few years to put it into perspectives, the 1985 year, where we had 63 percent sold in Manitoba, was a bit of an anomaly because of the timing of our selling of the lumber. We weren't selling it at peak lumber demand periods.

Beginning in 1981, the breakdown was 42 percent in Manitoba and 55 percent outside. In 1982, it was 30 percent in Manitoba and 67 percent outside. In 1983, it was 24 percent inside Manitoba and 73 percent outside; 39 percent and 58 percent in 1984; and 63 percent and 33 percent in 1985. But on average, about 70 percent is probably an accurate figure of the amount of lumber that is sold into the U.S. market.

MR. C. MANNESS: Can the Minister also provide those breakouts, either in detail or in a general form, indicating what percent of the pulp and paper is exported to the United States?

MR. M. HARVEY: Mr. Chairman, we're currently not making pulp. Although we still have the capacity to make pulp, we don't make it on a regular basis, and two-thirds of our paper production will be going to the United States.

MR. C. MANNESS: Is there any fear of countervails being directed toward that commodity?

MR. M. HARVEY: Mr. Chairman, the paper is covered by GATT and multinational. We recently, as you know, lost protection in the other direction, where we lost - We had a 15 percent cover on brown paper ourselves at one time which has been negotiated away through GATT, so I suppose we could take some comfort from that, and we do, but we are watching the events in the United States and we would hope that the GATT Treaty would stand and that it wouldn't affect paper.

We are also a very small actor in that market. That's a very, very large market, so I don't think the same kinds of percentages apply in paper as they would apply in lumber.

MR. C. MANNESS: Mr. Chairman, I would be curious to know why - maybe the Minister can tell me again, for my clarification, for what period of time the sawmill and the paper plant were shut down in the fiscal year covered by this annual report?

HON. J. STORIE: The pulp and paper division was shut down for five weeks, from November 12 to

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December 18. This was part of the normal scheduled maintenance and it was extended to accommodate the upgrading. There was a normal maintenance shutdown from May 12 to May 26; a shutdown from June 30 to July 16, again due to an order book shortage; and the one-week normal shutdown in October, for a total of 10 weeks or two-and-a-half months.

The lumber division was shut down from October 1 to March 18, which is about a five-and-a-half-month period. There was a Christmas shutdown of two weeks; a month's shutdown to complete the upgrade from April to May; and an annual Christmas shutdown of two days, for an approximate total of seven months, out of the 15-month period.

MR. C. MANNES: Mr. Chairman, the difficulty I have when I read these numbers and I realize that there's a \$31 million net loss for the period, \$22 million of that being a cash . . . that I can't detect where there were any major decisions taken by management and, indeed, by the government to try and cushion, through cost reductions, that obvious shortfall in revenue. I can't detect, by looking at the statement of operation sheets, Mr. Chairman, where the government directed Manfor to attempt to come to grips with, obviously, a significant downturn and, I'll tell you why.

I look at 1985 and compare that with the budget of 1986. The Minister can say, well it's 15 months, but two-and-a-half to five months of that stretch of time there was no activity at the plant. So I think, comparing the 1985 15 months with budget 1986 12 months really is not a terribly unfair thing to do.

When you look at the gross sales, there is a modest forecast increase of some \$12 million or \$14 million. Then yet, on the expense side, I see an increase of roughly 4 million without any major changes in particularly the labour portion and, to a much greater degree, a major increase in the general administration side. So I would ask the Minister whether or not management and the government did all that it could have under the circumstances to mitigate the potential loss, whether it was obvious to the government and to the management probably one-third of the way into the past fiscal year.

HON. J. STORIE: Mr. Chairperson, I shared some of the questions that the member raised in my own mind. Unfortunately, the operations on that scale are difficult to maneuver, appreciating that layoffs require notices of a certain period of time, recognizing that there are ongoing operating costs with or without production. The fact that there are huge inventories of logs sitting in the yard while there's no production, costs mounting up, interest charges, etc., it's difficult-a-to manage kind of operation. But during that period of time, there were layoffs. There have been reductions in staff. There were reductions in staff, and I've indicated to the member the numbers of reductions. Camps were closed permanently. So there were ongoing measures.

Unfortunately, the benefits of some of those actions won't show up until this year. The ongoing operating costs of running the plant contributed to the significant losses, as did the extremely volatile markets, the fact that the pulp and paper mill was shut down for some period for lack of orders. Because of the disruption,

it disrupted our normal marketing pattern. So the upgrade created its own set of problems which I believe management and the board of directors handled as best they could. But perhaps the chairman can offer some further comments.

MR. M. HARVEY: I would also like to take the opportunity to respond to Mr. Manness' question on the GNA. We have an accounting difficulty here in that the way the GNA is transcribed onto a statement is not the same as we have it in the budget. The comptroller informs me that the 17.7 figure that I gave you includes depreciation. So if you want a comparable figure for 1986, the number is 10.3.

With respect to the actions taken, I had indicated in my accompanying letter with the annual report, the board directed the company to try to get to cash break even this year, and they came back with as close as they could do that. But I think the difference in savings that we are requiring from them this year from what they had originally budgeted was in the order of \$7 million.

The Minister has alluded to a number of structural barriers that make it difficult to take quick action on some of these things. We have also, I think, taken a very different approach to the generation of revenue. Along with the instructions from the board was the suggestion that the managers take in their revenue buildup a serious look at the revenue experience that the company had had over the last 13 years, and make sure that was a significant parameter in deciding what their revenues might be in the 1986 budget and beyond. So we weren't totally dependent on what the industry was saying about what the market would do. So we have some, we think, more practical guidelines to generate our costs against.

MR. C. MANNES: Mr. Chairman, on that point then, I would ask the Minister if he could tell us, after six months of operation in this fiscal year, whether Manfor achieved roughly \$40 million to \$45 million of sales. Of course, in asking that, I don't know if the cash flow generated was to be more or less uniform throughout the fiscal year, but I would ask him whether or not that has occurred.

HON. J. STORIE: I don't have it here. I can give you an indication. I can only tell you that net revenue at this point is up about 1 percent from budget.

MR. DEPUTY CHAIRMAN, M. Dolin: Mr. Manness.

MR. C. MANNES: Mr. Chairman, I understand that. The Minister had indicated that there was 11 percent up on the cash side, but I'm curious maybe to know whether or not projections as given have been more or less followed in the component side, revenue versus expenses, or whether there has been some other reason for the Minister being able to make the claim, as he does, that forecasting net revenue is moving along the better path.

MR. CHAIRMAN: Mr. Harvey.

MR. M. HARVEY: Mr. Chairman, the mill net revenue totals the actual budget to June 1986 for 37.245 million.

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The budget was 37.245; the actual was 37.278. So we are just about dead on as far as net revenue was at that stage.

I didn't quite catch the last part of your question. Was it what the costs were and where they had got to? Is that your question?

MR. C. MANNES: No, Mr. Harvey, that's not necessary because, obviously if you're tracking there, then obviously your costs and expense projections . . . I'm wondering, Mr. Chairman, if the chairman can tell us more about this travel and upgrading component under GNA. Where are managers and senior staff travelling? How are they upgrading?

MR. M. HARVEY: The upgraded travel was mainly the project team visiting at the sites of suppliers. For example, there were a number of trips to ATC. Those were the computer people in Oregon where the sawmill stuff came from. In addition to that cost, there was a fair amount of training involved in the new equipment. Some people went away to get some of it and then brought it back onto site, and trained their colleagues in the operation. So the majority of that travel around the upgrade had to do with those kinds of meetings and negotiations and so on.

MR. C. MANNES: Can I ask the Chairman where were they trained and what course was it that they received training in or is there a formal course for that type of learning?

MR. M. HARVEY: We had some of our people in the pulp mill go get some training in the operation of computerized controls. They were trained as trainers and subsequently came back with a supplier of training and worked on the site with their colleagues in training them in the use of computerized controls.

MR. C. MANNES: Can Mr. Harvey tell me, what is the Kwatico (phonetic) course?

MR. M. HARVEY: Yes, the Kwatico (phonetic) course is a course designed to change the culture of the organization to work with the managers to develop a different operating style of management to involve all workers in participatory management practices and it involves some formal training, some of which is done at Kwatico. (phonetic) The majority of the training is done on site. Once it gets down below the lower levels of management, a model is designed to develop their own expertise and carry on through the organization that way.

MR. C. MANNES: Can the Manager tell us where the senior members of staff; where they went to receive basic instruction within this course?

MR. M. HARVEY: Yes, Mr. Chairman, they went to a small centre in Ontario, just outside of Atikokan.

MR. C. MANNES: How many of Manfor staff have taken this course over the past five years?

MR. M. HARVEY: We could get those figures for you. There would be a significant number of the current senior managers who have taken the course.

MR. C. MANNES: Could Mr. Harvey then indicate what has been the cost to Manfor in fees of anybody attending this course? Is there a basic fee associated with taking this course?

MR. M. HARVEY: If we are relating the question to the Management Course itself, I believe the fee for that for one person is \$900.00.

MR. C. MANNES: Has there been a review and a report on its effectiveness to the board?

MR. M. HARVEY: Yes, the board is kept involved. In fact, most of the board, I think all of the current directors had been on the course themselves and they're updated monthly on the progress of the work that is now taking place inside the company.

MR. C. MANNES: Can Mr. Harvey tell me, does Manfor pay the fee directly to this college and does that college use all of that fee for instruction?

MR. M. HARVEY: We pay the fee directly to the college. I don't know what their cost breakdowns are, but that's what we pay; whatever they bill us for the time and per capita for the course.

MR. C. MANNES: Is there any amount rebated or directed to anybody who may have recommended that somebody attend that course?

MR. M. HARVEY: No there is not, not to my knowledge.

MR. J. DOWNEY: Mr. Chairman, one area that I'm still not clear on; that's on the statement made by the Minister that the replacement value would be \$350,400,000.00. Am I reading it correctly when I go to the Statement 1, the book value, the asset value is \$136,542,000.00? Do I understand it correctly in reading it that way?

MR. M. HARVEY: Yes, it's 152 less accumulated depreciation of 52.8 for 99.4.

MR. J. DOWNEY: Okay, Mr. Chairman, I just wanted that point cleared up.

There have been comments recently, Mr. Chairman, that there was an opportunity to lease a building, or Manfor had the opportunity to lease it. Did they negotiate directly with the company - that was a vacant building, or a building that was going to be used for the construction for manufacture of a product for Limestone?

MR. M. HARVEY: As I understand, the question was whether they negotiated with us for leasing the building? Yes, they did.

MR. J. DOWNEY: Maybe Mr. Harvey could give us a little bit more detail as to the approach. Do you have a lot of vacant space available at the Manfor complex? Do you have a lot of extra capacity or what is the situation with your buildings?

MR. M. HARVEY: Yes, Mr. Chairman, the building in question is what has been called the Bertram plant.

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When the company was first built at The Pas, the Churchill Forest Industries, there was another company to be established there called Bertram and Sons. It was to be a facility to manufacture pulp mill equipment. There was a fairly elaborate machine shop set up in that building and it's a fairly large building, probably one of the larger buildings on site.

It never ever did realize its potential in that direction. We had been using a small portion of it as a machining facility for the pulp mill but the majority of the building has been empty all these years. It's carried on the Manfor books but it's never been operated anywhere near what it was designed to do.

MR. J. DOWNEY: You indicated that you had negotiated. Who was the company you were negotiating with to lease that building to?

MR. M. HARVEY: Actually the negotiations were carried out by Mr. Balmer but we were approached by two companies who were interested in the facility: Equalare (phonetic) and IMPSA, I think is the name of the other company. There were interested in using the facility if they had received the contract at Limestone. They were intending to use some of the equipment and some of the facility to manufacture portions of that contract. So by negotiations - that's probably too strong a word - we indicated under what circumstances we would be prepared to lease the building and it was all conditional on whether or not either company were to receive the hydro contract.

MR. J. DOWNEY: What did that mean to Manfor? What would the dollar value of that lease be in the term?

MR. M. HARVEY: Mr. Balmer could probably come up with that, but what it means to Manfor, in essence, is the cost of maintaining that facility in its present form to the bottom line of Manfor is in the order of \$250,000 a year for which we don't have an offsetting revenue.

MR. J. DOWNEY: You're indicating that it now costs you \$250,000 to carry that building, to maintain it?

MR. M. HARVEY: To maintain it and the operations of the portion that we use, because it's a huge building if you can understand the picture and we don't have the revenues. There is no way of generating revenues in the scale that it was originally intended. We do use a portion of it to do some of our own machining but that's not operated at a profit.

MR. J. DOWNEY: It is calculated at a cost of \$250,000 to Manfor on an annual basis, upkeep, whatever is necessary to maintain the building.

MR. M. HARVEY: Yes, I'll just check to make sure that's what's included in there but I think that's correct. Yes, Mr. Downey, that includes heat, maintenance, staffing, so on, yes.

MR. J. DOWNEY: What was the offer made to companies? How much would it have returned to Manfor if it had at least gone through? What was the offer made to the companies?

MR. S. BALMER: Without having a specific number in front of me, perhaps if I just outlined the way the negotiations went. Our aim was to recover the costs that we were currently putting into the building and the lease considered the average going commercial rate per square foot. That's the way the lease was arranged. We were most interested in getting our portion of the cost of maintaining the building back and maintaining that and somehow coming to an agreement, maintaining that small portion that we require for our business.

The second company that we got more than just conversational stage with was based on the possibility of actually purchasing the building as opposed to leasing it.

MR. J. DOWNEY: You had an opportunity then to sell an asset, to recover funds for your operation which are really non-essential to your operation at Manfor. You had the opportunity to produce a cash flow from that sale or the opportunity to lease it, and as I understand the lease proposal is that you would recover your carrying charges of \$250,000 or basically in that range, and that was based on a going commercial rate for property of that nature, that's how you would recover that. If it was in excess of that, you would get a cash return over and above the \$250,000.00?

MR. S. BALMER: I think essentially that's correct, essentially that's correct.

MR. J. DOWNEY: Was was the reason that the deal didn't go through? Was it because of the company not getting a contract on Limestone, is that the basic reason?

MR. M. HARVEY: Yes, both of the discussions with us were conditional on them achieving, being awarded the gates contract at Limestone.

MR. J. DOWNEY: Who was doing the discussing with you? Was it discussed with you, the benefits that that particular contract would incur to Manfor and to the community at large up there? Were you people involved in any discussions with Hydro or who was the contact person there?

HON. J. STORIE: Mr. Chairperson, the benefits were made obvious, I guess, to Crown Investments who also were aware of the negotiations. As I say, the deal was conditional and as the chairman has indicated it was conditional upon their receiving the contract. However, I can indicate that both myself as Minister responsible and the government have encouraged both of those companies to pursue that option as they continue to look for additional contract work. We have attempted and will be dealing further with both of those companies.

MR. J. DOWNEY: So in other words, all is not lost at this point because they did not achieve that contract. There are still negotiations taking place with Manfor on the use of that building and that facility.

HON. J. STORIE: Mr. Chairperson, we have indicated and I believe the Minister of Crown Investments has

indicated that we are prepared to lease the building for \$1 if there is an interest in establishing a manufacturing plant in The Pas. I believe the two companies that were referenced earlier have indicated a further interest in pursuing that option as they go into some additional contracting.

MR. J. DOWNEY: That's interesting. It appeared that the negotiators at Manfor may have possibly negotiated somewhat of a better deal than what the Minister is telling me his colleague, the Minister responsible for Economic Security. I would say it's economic insecurity, if that's the kind of negotiations that he's carrying or she's carrying out on behalf of the taxpayers. What I have heard here is that there is a substantial amount of revenue which could well be generated for Manfor, which would help their operation, which would help the taxpayers of Manitoba, which would help those people who want to maintain their jobs there, that the government should rethink as to who does the negotiating on their behalf. I question the Minister's statement as to why he would necessarily get involved politically on this particular subject.

HON. J. STORIE: Mr. Chairperson, I guess two things: No. 1, there is still the question of the equipment, some of which, as has been indicated, is used by Manfor, which obviously some of which may be leased under whatever terms to the companies involved; the second question, I think, from solely a Manfor perspective is the question of the current cost of operating the building. Finally, I think it's quite obvious that one of the reasons that the two companies were not successful was because of the costs of a purchase plan for the building, and given the importance of establishing a secondary manufacturing facility in The Pas, in the area, obviously I think that an offer which supports that makes sense.

MR. J. DOWNEY: The Minister indicated that one of the reasons the contract wasn't successful was because of the cost of incurring this building or the cost of setting up. I would like the Minister to indicate a little bit more evidence of that, that's not basically what the public have been told to this point. In fact, the company that achieved the contract got it on the basis of an opportunity to rebid; the information that I have is that people who were considering taking this building probably did not have that second option, and I'm curious to know how the Minister can substantiate what he's just said, that this is the reason that it eliminated them from achieving the bid.

HON. J. STORIE: Mr. Chairperson, I can only assume that if they were not the lowest bid this is one of the factors that contributed to that. I've indicated that our interest obviously is twofold; one is to utilize the Bertram Building to its best possible advantage, create some employment, at the same time relieve Manfor of its responsibility. So the two individual companies that have been involved have indicated a desire to pursue that. I've indicated that I think we can work out a lease fee of the building; that's separate from a purchase; the possibility of a purchase if they wish to pursue that, but that at a nominal rate, but that there would be

some equipment and some other conditional arrangements that would have to be made.

MR. J. DOWNEY: That takes us to another question dealing with Manitoba contracts and the policy of Manfor. Is it Manfor's policy to contract within the province, first opportunity within the province or how did they carry out the contracting of the work which they had recently done? What was the basic policy which they followed? As I understand it, there were some problems with Manitoba contractors not having the opportunity to bid on some of the work that was taking place.

MR. M. HARVEY: Yes, Mr. Chairman, through you to Mr. Downey, the policy of the company has been Manitoba contractors first. I think the problem you're referring to arose out of a practice that some people who were in business did not get an opportunity to bid because they were not on the list of contractors that were solicited and shortly after that we arranged for those people and others to have an option, those people and others we did not know about through the, I believe it was the Winnipeg Builders Exchange getting a copy of the specifications, but the policy of the company, all things being equal, has been - Manitoba first.

MR. J. DOWNEY: I was in The Pas when a lot of that work was being carried out. What percentage of the upgrading of the plant were Manitobans and local people, and what percentage were from outside of the province?

HON. J. STORIE: Mr. Chairperson, the specific details requested are from last year, the last reporting year. We would have to get those and I could undertake to provide the percentages to the members of the committee.

MR. J. DOWNEY: Well, the reason I asked the question was as there was a lot of concern amongst the local people at that time that there were people there from - and maybe it was the technical people or people, the kind of work that couldn't have been carried out by some of the local individuals, but it was a concern brought to my attention by numbers of individuals up there that there was a lot of taxpayers' money being spent and the benefits were not being accrued in those areas that would be most beneficial to Manitobans, that there were a lot of outside individuals who were in town; were in fact replacing Manitobans when in fact they needed the jobs in Manitoba. I'd ask for a comment.

MR. M. HARVEY: Mr. Chairman, the work that was able to be done by local people I think was very well filled by local people. I know a lot of the contractors who did the cement and those kinds of things; there was a lot of people working on-site at that time that were local. I believe the contract specifications called for local preference, but in addition to that there would be times when there would be a lot of people who are skilled in the specific installation of certain kinds of milling equipment and that kind of skill would not be available locally. Our intention was, and I think

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reasonably achieved, to get as many local jobs as we could out of the upgrade.

HON. J. STORIE: Well yes, I can echo his comments. I too spent a good deal of time in The Pas and communicated, at that time, with a lot of individual companies interested in bidding on work. There was an initial problem - some misunderstanding about the scope of the work that was being done. Some of the pieces of equipment, obviously, were imported from outside the country and some of the installation work of specific pieces of equipment were highly specialized, required specialized training, but the majority of the construction work, the iron work, etc., was done with Manitoba and Northern companies. I can get you the specific figures.

MR. CHAIRMAN: Further questions? - Mr. Pankratz.

MR. H. PANKRATZ: Some of these questions, Mr. Chairman, might have been answered before, but for my own clarification, what is the number of people who are employed at Manfor in total?

HON. J. STORIE: Mr. Chairperson, that depends on the season, very much depends on the season. Currently, the Woodlands Division which employs 350 approximately is in shut-down, but the average employment during a full production season would be approximately 740.

MR. CHAIRMAN: Further questions? - Mr. Pankratz.

MR. H. PANKRATZ: You say 740. Would that be a 740 year staff? I'm referring to permanent - yearly employees I'm referring to - the number of years of employment.

HON. J. STORIE: That would not correspond to a full year's employment, because many of the Woodlands people work approximately seven or eight months of the year. The permanent full time would be in the sawmill and the pulp and paper mill, by and large, which would be about 500 - in that neighbourhood - 530, something like that.

MR. H. PANKRATZ: Mr. Chairman, would it be fair to assume approximately 650 employees on a year-round basis, the number of give and take?

HON. J. STORIE: Yes, if you rolled it all in and counted the part years and added them up.

MR. H. PANKRATZ: Next question - what would be the total labour bill?

HON. J. STORIE: I believe, Mr. Chairperson, the wages paid in 1985 were some \$33 million.

MR. H. PANKRATZ: I realize you've done quite an upgrading to the plant. Now, my question would be what is now the late expectancy of the upgraded facility?

MR. M. HARVEY: Mr. Chairman, there are two kinds of expectancy; No. 1, the useful life of the equipment which I assume would be fairly long; No. 2, the other

one is a technological life which may or may not be that long. We think the upgrade in a paper mill is fairly secure for as long as, as Mr. Downey says, they put things into paper bags.

The sawmill is a state-of-the-art sawmill, but at the time we put it in, I think I told this committee the technological life of sawmilling equipment at that time was about five years. Now, I don't know whether that's increased or decreased in the intervening years, but that's about what it was at the time.

MR. H. PANKRATZ: When I see the statement - do you project anywhere in this statement for updating and for improvements? Has it been calculated into any one of these expenses?

MR. M. HARVEY: Yes, we run a capital program in each year where monies are set aside to maintain and improve the facility. We would hope that would keep us reasonably current, but given the things that are taking place in industry generally now, it's not a guarantee we might not have to put in some major technological things. We try to keep up in that way.

MR. H. PANKRATZ: I notice your 1984 sales, and then naturally the 1985 because of the disruption you had, but you're projecting about a 20 percent increase for '86. My question is: how do you expect to arrive at that 20 percent increase - through what? Is it through additional sales or increase in cost of lumber or through which factor?

MR. M. HARVEY: I think, Mr. Chairman, the most significant factor there is that we will have a full year of production which we didn't have in '85. We lost a lot of production time and we therefore couldn't make the sales.

MR. H. PANKRATZ: Was 1984 a full-year production?

MR. M. HARVEY: Yes, partly. The upgrade started in late '84.

MR. H. PANKRATZ: One more last question, that is, are you projecting the sale of your products to basically increase in price or basically a decrease due to what's taken place with the American market?

MR. M. HARVEY: We are projecting an increase in producing the quality paper, the premium paper, and that paper is worth more money per tonne. So there would be an increase built into the budget in that way, yes. That's the direction things have been going. We've been manufacturing mainly the super performance kraft, which is worth more money to us.

MR. C. MANNES: Mr. Chairman, I would like to ask the Minister what the objective is at this point in time with respect to Manfor. The Minister has indicated to us today that the net loss forecast for this fiscal year will be somewhere around \$12 million, 5.2 of that being cash. Could the Minister indicate what the government is looking for? Will they continue to stand in full support of Manfor as long as its cash costs are met?

HON. J. STORIE: I'm sorry, I missed the last part of the member's question.

MR. C. MANNES: Will the government continue to stand fully behind Manfor as it's presently constituted, bearing in mind that it has new equipment, but also bearing in mind, as indicated by Mr. Harvey, that obsolescence moves in rather quickly into this industry given the emerging technologies that are in place? Given those factors, I ask the Minister whether or not the government will continue to stand behind Manfor as long as it meets its cash costs?

HON. J. STORIE: The last few words were, "as long as it meets its cash costs"?

MR. C. MANNES: Right.

HON. J. STORIE: Mr. Chairperson, I think it has been said, I have said, I believe this government has indicated that we are committed to Manfor, to maintaining it, to improving the situation there. I hope the record of the last few years has shown that commitment is serious with the upgrading. I think the results of this year reflect that there were some good decisions taken in the previous years.

My commitment is twofold to Manfor. No. 1, is to continue to do those things and to allow the board and management to do those things which are going to leave Manfor in a position where it can contribute in a financial way to the province beyond what it has contributed already.

We could get into an interesting discussion about the net benefits of Manfor over the years but I think it's important, from the taxpayers' perspective and the government's perspective, that given the opportunity we have with the upgrading, with the changes that have taken place and with the momentum that is building within Manfor itself to consolidate its financial situation, to make further changes - perhaps some will be difficult - that are required to be made, I hope that will leave us in a position to look to the future for Manfor.

I have indicated before the committee that it is possible that if there's interest from the private sector in building on the asset and the resource that we have in that part of the province that we would certainly be prepared to pursue that. I will be pursuing more aggressively that possibility in the coming months with full knowledge that I think we're on the right track in Manfor in itself as a corporation.

MR. C. MANNES: Two points, Mr. Chairman, the Minister firstly talks about momentum. That can be described in various ways. I took it to mean, when he used the word, that there's a spirit developing on site between labour and management that is going to bode well for the productivity and therefore the future financial health of that. I take him at his word when he says that.

Yet his optimism with respect to the future, Mr. Chairman, I'd love to share with him, too. I have some difficulty though. I asked the Minister of Finance here last week whether he could tell me where the province is heading in a general state over the next two or three years. He indicates that it's almost impossible to do in the sense of providing a financial blueprint as to where the province is headed. I realize fully well, within the North American continent, that today things are

happening very quickly, particularly in the area of commodities with respect to trade.

So it's with that understanding or lack of complete understanding of what may happen in the future that I realize the Minister's views which are so optimistic really are not based on anything other than the fact that Manfor has been upgraded firstly; and secondly, he believes that there is a good working relationship. Mr. Chairman, I would claim that those two facts in themselves are not significant in the sense of allowing the Minister to indicate a bright and rosy future for Manfor two years hence. They're necessary, but they're certainly not sufficient.

It's on that basis that I want to know how quickly the Minister is prepared to move in a number of areas. Firstly, he's explained to us that government is active at this time considering outside sources of capital which would then take an ownership position in Manfor, but I'm also troubled with respect to the labour contract that has been signed. The chairman indicates that it's in place through 1988. I don't know what increases or whether there are firm rates over the next two or three years. Maybe in response, the chairman can tell me but it seems to me that the only way this plant is going to be at all competitive, the only way it has any hope in the balance sheet of bringing forward any type of return to the Province of Manitoba or, let's say, lack of hemorrhaging loss, is if there not only is good momentum but there is some type of agreement between not only labour and management but including management that these high costs associated with labour and wages to senior people somehow be moderated. I just leave that for the record, Mr. Chairman.

MR. J. DOWNEY: Mr. Chairman, I have a few questions. I note the time, and we could probably extend it a little and possibly finish rather than have these people travel all the way back.

HON. J. STORIE: That would be appreciated, if we could do that.

MR. J. DOWNEY: There are a couple of areas that I want to ask some questions. What is the current policy and program that Manfor are carrying out dealing with reforestation? At what period of time do you anticipate having the cut-out area, the harvested area completed reforested? Do you have a target?

HON. J. STORIE: Mr. Chairperson, Manfor does have, I think, a rather energetic reforestation program that would see us replacing 100 percent by 1990, the cut-out areas, the logged areas. That is increasing on a yearly basis until 1990. I can give you the details if you would like. In the current year, for example, we are planting approximately 2 million trees. There will be scarification of approximately 1,900 hectares, site preparation for some additional 1,700 hectares and that builds until the year 1990 when we will be planting approximately 5 million seedlings and continuing with the scarification of some 2,700 hectares.

MR. J. DOWNEY: I thank the Minister for that information, Mr. Chairman.

I asked Mr. Harvey this question, and again we go back to the comments that have been made about the major thrusts and the bright light, so to speak - if there's such a thing for the operation - will come when the major overhaul and the upgrading, the impact of it is flowing. I ask Mr. Harvey if it would not have put the position of the company one year earlier, if the projecting \$12.7 million loss for this coming year, would we have not been able to reduce the \$31.4 million loss if the government had proceeded to taken action one year sooner as he and his Minister were projecting? Would that not be a natural assumption to make?

HON. J. STORIE: Just without wanting to usurp Mr. . . .

MR. J. DOWNEY: Mr. Chairman, I asked the question of Mr. Harvey.

HON. J. STORIE: I did want to indicate that the sequence has been fairly clearly outlined and the decision to go ahead with the upgrade was not the decision made by the province alone. It was the result of negotiations with the Federal Government. In fact, the Federal Government contributed some \$12 million through DREE grants to the upgrading, and there was not a final decision on the part of the partners until late 1983. As soon as the decision was made, construction was commenced.

So while I don't disagree with the member's point that if things had been moved back a year we would have been in a better position now, unfortunately, I think the facts are it's also the case that difficult hump year, which was the 1984-85 year, would have been experienced in any event due to the length of the shutdown in both divisions, but I'll allow Mr. Harvey to . . .

MR. M. HARVEY: Yes, Mr. Chairman, through you to Mr. Downey. It's a difficult question to answer specifically because a market scenario is never the same.

We would have been in a different situation in the United States because Pensacola would have still been operating. We did have a difficult time when they started to get rid of their product as well because they were going out of it and wanted to get rid of what they had. Then there was a period when they were trying to swing back and competitors were trying to swing back, customers were using the strong paper back into the flat multi-wall. So all of that took place in this time, around the time of the upgrade. There may have been some different factors there. I'm not trying to skate around your answer, I'm not just sure that I can give you an accurate one.

MR. J. DOWNEY: I appreciate, Mr. Chairman, the difficulty that individuals have in answering the question. It goes without saying almost and it flows from all the comments that we have heard, and I've read your comments over the past few years, that that's been a significant factor in your mind that an upgrading would put the plant in a better position. I'm saying, and I think it can't be disputed, that if in fact the government had moved a year sooner that we would have not lost \$31.3 million or 31.4 million, that if in fact the projection

comes true we would have probably saved in the neighbourhood of \$20 million in losses, and the government would have to live with that record. I don't expect you to make any comment on it any further.

An area that is of considerable concern, and that is the controls that are placed on Manfor or the policy guidelines in the hiring of people and the benefits. Mr. Sweeney, who was certainly in a position of what could be considered a pretty good deal for himself, what is in place now to protect the taxpayers interest when it comes to employing people of that nature? Are there any guidelines put in place since the experience that we've had with that past individual?

HON. J. STORIE: I think the member knows that the current, the contract, the current chief executive officer has been tabled in the Legislature. I can only indicate that, in reference to the previous president and chief executive officer, that the remuneration paid to that individual came about as a result, not of any desire by myself or my predecessor to pay those kinds of money, it came about as a result of market forces. The facts of the matter are that individual was paid almost twice as much by his previous employer in a different capacity. While his salary was some \$150,000 plus some bonus, given the expertise that we felt was necessary and given the expertise that the management group that was looking for this executive for us, and I indicated I did not, and my colleagues did not hire a political lackey, that we were looking for someone from private enterprise with expertise, an engineer, those qualifications are difficult to come by.

Having said that I, too, like most Manitobans, find those kinds of salaries mind boggling but they're a fact of the industry, and that if you're going to hire . . . I could have hired a box boy from Safeway to run Manfor. We chose not to. I think that the fact that we've come through the upgrading in relatively good shape on budget, is a reflection of perhaps that man's expertise. I don't want to get into a defense of that situation. But I'll ask Mr. Harvey to comment further on the policy that the board has in place.

MR. M. HARVEY: Yes, Mr. Chairman. I could say a little bit more about that situation, being personally involved in it.

We were on the eve of a major upgrade; we didn't have anyone in the company that had gone through that kind of an undertaking. I certainly was not steeped in the forest industry. We hired a consulting group to look for someone for us and the difficulty was in attracting people of that calibre to Manfor and to The Pas. I say Manfor first not just because I'm from The Pas, but the fact is when you've got a company that it's in difficult times, it's difficult to get people to go to it because it's their reputation as well. I, too, do not like the kind of package; it's the market price, if you like but, over and above that, I feel a personal animosity to the kinds of peripherals that exist in some of these things and do my best to try and get it a cash deal if we possibly can.

If there has been a policy developed out of that in the company, it is that kind of arrangement where the board and myself have tried as much as possible to attract the kind of people by meeting and coming as

close to the market price as we can, but also tried to work out a deal with them that didn't have a lot of things that seem to be common in those kinds of contracts, those kinds of peripherals that everybody seems to resent. I recognize there are some tax implications and everything else but if I had my druthers I would like to pay a man so much to do a job and let him look after all of his other expenses. So that's what we're after now, Mr. Downey.

We still have the reality of trying to get people from the industry. I think that you may be aware that the forest industry is one of the highest paid industries in the country, but we have still to meet that kind of a demand. If we're trying to get people - it's also a very competitive industry - to compete, you've got to get smart people, otherwise you're not going to win. So it's a Hobson's choice for us and we're doing our best to negotiate in that area, but we have to meet the market reality as well.

MR. J. DOWNEY: Well, I think the bonus portion that he was paid and all this discussion about the work he did to leave a legacy of almost a \$31.5 million loss is one which falls on the taxpayers with certainly a lot of concern and the fact that their taxpayers' money was handled in that manner, that the person who was supposed to be responsible and the Minister did not carry out the responsibilities and they've reaped the political reward for it. I just hope they have learned from their mistakes and that we are not in the situation of having that happen again. This government has a track record within the Crown corporations of having nothing but problems and we don't particularly need a hemorrhage of taxpayers' money because of their mismanagement.

Mr. Chairman, when one looks at the overall operation of Manfor, the figure which could be disputed that the Minister put on the table that the wages cost \$33 million and that the loss was \$31.5 million, the 38 percent is a little bit different than that of the \$70 million. It would come to a little bit less than that but the wage portion of what we were given - it's probably not that far out, but it's 38 percent of \$70 million - is not quite \$33 million that the Minister gave us.

But let's use this 33 million that the Minister gave us and the \$31 million loss. If we were to add any kind of interest and we've just placed \$32 million of provincial taxpayers' money which as I understand is a grant, there's no repayment of those funds, it's a direct grant - if I'm incorrect, please say so - \$8 million to \$12 million of Federal Government money which comes to an excess of the \$40 million that has been just recently put into it. We have shares to the tune of \$265 million or dividends owing in shares to \$265 million. When you add all these losses up, as I indicated in my opening comments, we have a major hemorrhage of taxpayers' funds. I'm not that encouraged at this point that we in fact are down to a 12.7 projected loss for 1986. If in fact the six-month statement indicates that - and I'll take your word for it and I'm sure the report will indicate it - that you're tracking in that direction.

I would like the Minister to tell the public, what is his objective if in fact we see another one or two major problems develop that continues this kind of massive hemorrhage. Will he speed up his activities in trying to

get private management involved in some portion of the private sale? Will he recommend that other measures be taken or are the taxpayers - and I ask him this in all sincerity - to be strapped with this industry this program forever and ever? Those are the kind of questions that I run into daily that people bring forward.

That's why I would have liked to have had the Premier here. I think that the Premier has to deal with these other than just put a press release out and say that the long-term viability of the thing is going to be better and then he says that the forest industry adds a major contribution to our economics of the province. Well right now, the one that the province owns isn't adding any major economic benefits to the province; it's in fact draining economic benefits from the province. The people who are working in that particular complex, I feel, should be given some assurance, should be worked with as they are now working with, that in times of tough economic situations with the operation of Manfor they are prepared to take less, and as well when the turnaround comes, that they are prepared to share in an increase in the benefits. I believe that is the kind of thing that the taxpayers of Manitoba are looking for.

I haven't been given too many assurances here today from the Minister that he has got a firm grip on the Manfor forestry product operation, that he is somewhat nebulous in his comments dealing with the possible sale of it. We'll wait and see the report that he has committed to give us in the first six months of this year so that we can make our own assessment as to the financial stability of it or the improvements in the financial operations of it.

As I indicated to him earlier, Manfor, as is the province, will be on a credit watch as far as the Opposition and the taxpayers of the province are concerned. They are going to have to perform and start to take some of the weight off the taxpayers.

As I indicated earlier as well, the people who have been involved in the Beef Program in the Beef Commission are now being called upon to pay back the funds. They contribute to our society as well as the whole forestry products. All we're asking for is fair play and I think the Minister can look forward to some further questioning when the six-month report is provided and I hope he does that very shortly. That concludes, Mr. Chairman, any remarks that I may have dealing with Manfor at this time.

MR. CHAIRMAN: Do you wish to pass the report?
The Honourable Minister.

HON. J. STORIE: Mr. Chairperson, I would just like to make one comment. I appreciate the member's remarks and I want to indicate, as I have all along, that we have taken steps to correct what we believe was an untenable situation. Those steps have included the involvement of a lot of people including the working people in the community of The Pas and if further steps are required to be taken to ensure that the direction that we have set is maintained, they will be taken. I want to assure the member of that; that we take seriously the concerns and the concerns of the taxpayers. We believe that we're on the right track and we're prepared to make those decisions that are in the best interests of all three groups.

Tuesday, 22 July, 1986

MR. CHAIRMAN: The report having been passed,
committee rise.

COMMITTEE ROSE AT: 12:45 p.m.

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