

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON
ECONOMIC DEVELOPMENT
Thursday, 31 July, 1986

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Hon. J. Bucklaschuk (Gimli)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Mr. Bucklaschuk, Hon. Ms. Hemphill,
Hon. Messrs. Kostyra, Storie

Messrs. Ashton, Connery, Dolin, Enns,
Johnston, Pankratz and Scott

APPEARING: Mr. Hugh Jones, Chairman, William
Clare (Manitoba) Ltd.

Chairman and General Manager, Manitoba
Development Corporation.

Chairman, Flyer Industries Limited.

Mr. Michael Fisher, Development Officer, Flyer
Industries Limited.

MATTERS UNDER DISCUSSION:

Annual Report of William Clare (Manitoba)
Limited

Annual Report of Manitoba Development
Corporation

Annual Report of Flyer Industries Limited

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CLERK OF COMMITTEES, Ms. T. Manikel: Before we
can start this committee, we must proceed to elect a
Chairman.

Mr. Kostyra.

HON. E. KOSTYRA: I'd like to nominate Mr.
Bucklaschuk.

MADAM CLERK: Mr. Bucklaschuk has been
nominated. Any further nominations? Seeing none, Mr.
Bucklaschuk, will you please take the Chair?

MR. CHAIRMAN: Mr. Minister.

HON. V. SCHROEDER: Thank you, Mr. Chairman.

If we could get agreement on the order of procedure,
I'd like to do the William Clare (Manitoba) Ltd. Report
first, then MDC, excepting for Flyer and then, finally,
Flyer. Is that acceptable?

MR. CHAIRMAN: The Member for Sturgeon Creek.

MR. F. JOHNSTON: Yes, Mr. Chairman, that's
acceptable, and to make things move expediently, if
the Minister gives us a brief rundown on the MDC, it's

my observation that the MDC have, basically, Flyer and
it also has the William Clare and the Saunders Aircraft
and the administration of some Jobs Fund loans or
grants.

If I'm not correct in that, the Minister can bring us
up to date. If he would bring us up to date on MDC,
I frankly have no questions on William Clare. We all
know that's been on our books here for, how many
years or so long, at a hundred dollars, and it may be
there for a long time; but I have no questions on William
Clare, other than if the Minister has any further to add
to what is happening with that, other than it's been
wound down and we're just holding it here for the reason
that we have to.

If there's anything else, maybe the Minister could
bring it up but, otherwise, we have no questions on
William Clare.

MR. CHAIRMAN: The Honourable Minister.

HON. V. SCHROEDER: Thank you, Mr. Chairman.

Yes, on William Clare, Mr. Jones had indicated last
year that they were attempting to resolve the issue.
I'm informed that MDC has now applied formally for
the dissolution of that company and we expect the
certificate to be issued momentarily. Once that arrives,
we would be advising Houghton Mifflin (phonetic) of
Boston that any royalties left from that date should
flow directly to the authors. That will then clear up that
issue.

On Saunders, the receivership is finally at an end.
There's a settlement arranged with the Air Autonomy
Ltd. claim and the documentation is being prepared for
the resolution of that issue and as soon as that is
in, MDC would be in a position to formally discharge
the receiver, then that would resolve the question of
receivership cost with some minor matters left to be
handled by MDC itself in regard to the collection of
certain payments from Air Autonomy Ltd. There have
been, just to confirm what the member was indicating,
no changes in the directive given to MDC in 1977 in
terms of new financing activities; and with the exception
of Flyer, no activities under Part 1 have taken place.

Of the old loans, there's 12 remaining outstanding
and all are being repaid in accordance with the terms
and conditions specified.

In terms of the Jobs Fund, the member is right. We
do administer Jobs Fund loans through MDC and we
have staff available to answer any questions.

As well, we administer Destination Manitoba loans
and the Manitoba Interest Rate Relief Program.

MR. H. ENNS: Just briefly, William Clare Manitoba
Limited is a virtually unknown commodity to most of
the new generation of MLA's, never mind the general
public I suppose. It was, of course, our venture into
the publishing world. Did I hear the Minister right that

the final dissolution of that company is in the process and expected relatively shortly?

HON. V. SCHROEDER: Yes.

MR. H. ENNS: We would then be in a position to have a final accounting in terms of monies that flowed into that company?

HON. V. SCHROEDER: Mr. Chairman, what you see before you is basically your accounting.

MR. H. ENNS: Thank you.

MR. CHAIRMAN: Are there any further questions on William Clare Manitoba Limited?

MR. F. JOHNSTON: No, Mr. Chairman.

MR. CHAIRMAN: Now we'll move on to the Annual Report, 1985, for MDC with the exception of Flyer. Mr. Connery.

MR. E. CONNERY: Under the Manitoba Jobs Fund Program, is there a program that is outlined for people to receive money or is it just put through Cabinet? Is there any official program?

HON. V. SCHROEDER: Mr. Chairman, there are funds made available in the capital portion of the Jobs Fund for development agreements and there are loans which have been issued under that category and that's what we administer here.

MR. E. CONNERY: Noticing under Gravure Graphics where there's four loans given to them - well, they're not all loans - some low interest, a forgivable, a letter of credit, bank guarantee. That's a significant amount of money for one company. What is the status of that company?

HON. V. SCHROEDER: I'll turn that over to staff, to Mr. Fisher.

MR. M. FISHER: The company is presently in the expansion phase and expected to create approximately 200 jobs and that is monitored monthly. Shortly, the company shall be receiving a rotogravure press which was manufactured in Italy and will allow the company to basically print a wider range of products than they presently do, and do so more cheaply.

Gravure Graphics, of course, purchased the Winnipeg assets of Crown Flexpak, which was in the process of closing down. If there's any more detailed information I can provide . . .

MR. CHAIRMAN: Thank you, Mr. Fisher. Mr. Connery.

MR. E. CONNERY: I'm just concerned. We've seen some Venture Capital programs go down the tubes, to me, with some concern as to whether there was enough monitoring of these companies. I'm just concerned, when we're looking at \$2,363,000 having being loaned to it, it's quite a large corporation and I just want to

make sure that taxpayers' money won't unavoidably be lost.

MR. S. ASHTON, Deputy Chairman: The Honourable Minister.

HON. V. SCHROEDER: In terms of the amount paid out, the money is arrived at as follows. There's actually a forgivable loan, providing they meet the various criteria, of \$395,000; there's a loan guarantee of \$975,000; there's a repayable loan at 13.875 percent interest of \$638,000; and there's a letter of credit of \$250,000.00. I think Mr. Jones wanted to make some further answer.

MR. DEPUTY CHAIRMAN: Mr. Jones.

MR. H. JONES: Just a general comment, if I could, picking up on Mr. Connery's concern about the way these loans are monitored. There are in total, so far, 12 such loans under the Development Agreement Initiatives Program and MDC, as the Minister has advised you, is acting as an agent for the department in this administration. But MDC itself treats them as if they were loans under our own portfolio and they are monitored on a monthly basis regularly. I do want to stress to the committee that monitoring is extremely active. We have, as I say, information given to us and we insist on it every month, so if that provides the member with some assurance, I trust it does.

MR. E. CONNERY: The member said there were some 12 loans under this sector?

MR. H. JONES: So far.

MR. E. CONNERY: They're not all listed here then.

HON. V. SCHROEDER: Mr. Chairman, the report is for 1984-85 and so there have been a number of loans negotiated since then. If the members want, I can name the loans quickly. There is Artic Co-ops Ltd.; Canada Wire and Cable; Canadian Occidental Petroleum Ltd.; Gravure Graphics; Jannock Ltd., Westeel Division; North Portage Theatre Corporation; Rock Lake Oil Seeds Ltd.; Share Gold Incorporated; Sherritt Gordon Mines Ltd.; Simon Day Ltd.; Toro Canada Ltd.; Vicon Incorporated; and just recently, not listed here, but just recently signed is an agreement with Carnation.

MR. E. CONNERY: Can companies get grants from different departments, I'm looking under the small business incentive payments from BD and Tourism, Gravure Graphics also received a small business incentive grant of \$6,500.00?

HON. V. SCHROEDER: In all likelihood, that would have been something for a feasibility study or possibly a trade show or something like that where the province and the Federal Government have arrangements to assist for those kinds of things.

MR. E. CONNERY: Jannock Ltd., could you explain that one.

MR. M. FISHER: Jannock Ltd. is the holding company which is largely involved in construction materials. The

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loan we have made of \$1 million was to the Westeel Division located in St. Boniface which is largely in grain bin manufacturing. It was one of the early loans approved in November, 1984 and it was expected that the company would create 100 additional jobs through a redevelopment and upgrading program. At this point, that is largely complete and the loan is proceeding extremely well. The recent financial statement reviewed indicated that the company is extremely strong and in fact it's had a growing trend in earnings and there are no concerns at this time with the company.

MR. E. CONNERY: It's a forgivable loan on the condition of employing an additional 100 people?

MR. M. FISHER: This loan is forgivable if they complete the anticipated expansion. The job condition is not a specific condition of the loan.

MR. E. CONNERY: It's not completed at this point then?

MR. M. FISHER: The expansion is largely completed at this stage, but the final accounting has not taken place.

MR. E. CONNERY: Have the jobs been created?

MR. M. FISHER: One moment.

MR. DEPUTY CHAIRMAN: Mr. Jones.

MR. H. JONES: Perhaps we can get that information in a few minutes, Mr. Chairman.

MR. M. FISHER: I can say approximately 80 jobs have been provided.

MR. E. CONNERY: Well, when they are giving these loans out, the ultimate is to create jobs, I'm sure, is that the foremost reason?

MR. DEPUTY CHAIRMAN: Mr. Fisher.

MR. M. FISHER: As I stressed, this job condition was not a specific condition of the loan. The capital expansion was. When I indicated that the company anticipated 100 jobs, this was just from conversations with the company, and it is not a condition of the loan or not a condition of the forgivableness.

MR. E. CONNERY: Sherritt Gordon Mines, \$10 million, just to know what it is. Could we have an explanation of it?

MR. M. FISHER: This again was one of the earlier development agreements, approved in April 1984 to assist in the development of a \$29 million underground copper zinc mine near Leaf Rapids. Without this interest-bearing loan, there was a significant probability that the mine would have closed down entirely.

Just for clarification, the mine took over from what was formerly an open-pit operation that had become economic. Without the mine, Leaf Rapids would have been in severe difficulties. It was anticipated that about

450 jobs would be retained by that. In fact, the company has retained over 500. The state of the copper market is, of course, weakened and, without this financial incentive, it seems reasonably clear that Sherritt Gordon Mines would have had severe problems with developing the open-pit mine.

MR. E. CONNERY: The Destination Manitoba loans, just quickly go through each one of them and the condition of them. Are they still operating? What do they do?

MR. DEPUTY CHAIRMAN: Mr. Jones.

MR. H. JONES: Mr. Chairman, does the member want me to go through the whole list? I can. There's quite a range of them.

AC Enterprises which is lodged in Grand Rapids for a loan amount of \$61,000, Phase 1 was a six-room motel. Phase 2 was intended to have been a dining room expansion, but that did not proceed.

Arctic Trading is a restaurant in Churchill. The loan is . . .

MR. DEPUTY CHAIRMAN: Mr. Connery.

MR. E. CONNERY: Rather than go through them, if we could have the information supplied to us after. There's a lot to do on Flyer. If that information could be given to us after the committee, that would be satisfactory.

MR. H. JONES: No problem, Mr. Chairman.

MR. DEPUTY CHAIRMAN: Any further questions on MDC?

Mr. Johnston.

MR. F. JOHNSTON: Mr. Chairman, just for clarification - and I know that there is a set of estimates for the Jobs Fund, the Jobs Fund estimates. These Jobs Fund programs that are being administered by MDC will be listed with the Jobs Fund estimates or available with the Jobs Fund estimates, am I correct in saying that?

HON. V. SCHROEDER: Yes.

MR. F. JOHNSTON: No more questions on MDC.

MR. DEPUTY CHAIRMAN: No more questions on MDC. Do you want the committee to pass the report?

HON. V. SCHROEDER: Excepting for Flyer.

MR. DEPUTY CHAIRMAN: Excepting for Flyer. Okay. Moving on to Flyer, then.

Mr. Kostyra.

HON. E. KOSTYRA: Thank you, Mr. Chairman. I would just like to make a few comments with regard to what has transpired since the last time the committee met on June 26. As committee members will recall, at that time we had concluded the detailed review of the Share Purchase Agreement and the Annual Report of Flyer, and also at that time, as members are aware, there

was some collective bargaining going on with respect to an extension of the current collective agreement. There was obviously some concern as to whether or not that would be concluded and for that reason it was agreed that the committee would rise and stay open for a further meeting. I think the words from the Member for Pembina were, in the case of the deal not being concluded.

I can report that the collective agreement negotiations, as members are aware, did result in an extension of the current collective agreement that was satisfactory to both parties. In addition, the Share Purchase Agreement has been closed; there were some amendments to that agreement and I did supply copies of those amendments to the Member for Sturgeon Creek a couple or three weeks ago, I guess it was two weeks ago, just after the closing.

So that is where things are at, the deal is closed and the new owners have taken ownership of Flyer.

MR. F. JOHNSTON: Mr. Chairman, the Vending Agreement and there's not too many great changes, but the concern over the 478 preferred shares. Has the government or the Development Corporation been able to purchase all of those outstanding shares except the 478, or will they be able to deliver those or pick those up? It makes reference to them in the first part of the amended agreement, and it appears as if there seems to be some concern over the 478.

MR. H. JONES: Mr. Chairman, you're correct, Mr. Johnston. We were left on closing with that unresolved issue on the 478 preference shares. Those particular shares were issued many, many years ago in the name of Walter Newman, now deceased, as a trustee for a Mr. Roger Pratt. Both counsel for MDC and counsel for the new owners expended much time and effort trying to locate the beneficial owner of those shares, and they were not successful.

So to complete the transaction on the 15th of July, there was a mutual agreement to deposit those shares with the Bank of Montreal for payment without interest to Roger Pratt upon presentation of the original share certificate at the bank. So it was an acceptable arrangement to den Oudsten and to MDC. All the others were completely clear.

MR. F. JOHNSTON: Maybe not a question, 3 is the financial statement as extended to another date, so the financial statement at the present time is one that is preliminary or not complete. Just leave that. Quite frankly, that's normal.

Now, in the original agreement it says that any agreements that have come together between the company and den Oudsten were subject to the union agreement with den Oudsten. Can I ask why the profit-sharing plan was dropped as far as the negotiating was concerned? The Minister's going to answer that this is within the negotiations between union and company, but profit-sharing seemed to be a logical way to go with this company at the present time. It has had its problems and, if they're going to manage successfully, profit-sharing might be the way to go. Can I ask why the government would agree to have that taken out?

HON. E. KOSTYRA: I'll ask Mr. Jones to give a detailed explanation, because he was involved in those negotiations. The direct question, I guess, to me from Mr. Johnston was why did the government agree to it. The government agreed to it because the other two parties did but, in terms of how that took place or why, I'll ask Mr. Jones to provide that detail.

MR. DEPUTY CHAIRMAN: Mr. Jones.

MR. H. JONES: It goes back, Mr. Johnston, to negotiations on a number of issues between the den Oudsten Company and the union. There were a number of issues that the den Oudsten Company I think, as we mentioned briefly at our last committee meeting, they wanted introduced into an amended collective agreement. Those issues were not acceptable, if I can use that term generally, and with the involvement of the mediator, we were able to go through issue-by-issue and get agreement on.

During that process, the Dutch made the decision to withdraw the profit-sharing plan from the agreement. That was during those negotiations with the union, and that issue was acceptable to them and to the union. It was entirely, frankly, a matter between them and the union as to how that will proceed. They just chose to withdraw from that original proposal. In other words, operating it here is going to be different from their operation in Holland to that extent.

MR. F. JOHNSTON: Item 6 is very interesting. We know that the company agreed to drop the profit-sharing. Schedule 11 in the original agreement refers to the contracts that Flyer had that would be turned over to den Oudsten. We had some discussion on them before but I say to the Minister that, when I received this and read it over, I was just a little aghast.

We have a situation whereby the contract between Chicago Transit and Flyer has not been completed. If the government doesn't deliver the contract by October 31, the government will then pay den Oudsten \$750,000.00. Now, we are turning over the business. We're turning over the contracts that are signed. We're turning over contracts that are in the process. Surely, den Oudsten can go on and represent themselves to try and get these contracts or get the final agreement. Here we have in the agreement that nothing will be agreed unless the union contract is negotiated and certified.

Between the time we had the last meeting and we saw in the papers that there were negotiations going on and maybe not going as well as they should, all of a sudden we have an amended agreement that says, if the government doesn't deliver the Chicago contract for refit - and if I'm not mistaken, I'm not just quite sure how 11 reads on Chicago - but just give me a second.

On Chicago, it says: "Agreement for manufacture of 25 coaches, agreement for Phase 3 of refit up to 200 coaches, contract relating to supply of spare parts." We now are going to pay \$750,000 to Flyer if we don't deliver after we've sold the company. I think there's got to be a fairly good and logical explanation for that. I have trouble with how it could be good or logical, but we now are on the hook for another \$750,000 in

this agreement, after it has totalled up to a very large amount already.

MR. DEPUTY CHAIRMAN, D. Scott: The Honourable Minister.

HON. E. KOSTYRA: We are not on the hook for another \$750,000.00. Both the Chicago and the Boston retrofits were conditions precedent to the agreement. In other words, the government - and this goes back to the original share purchase agreement - had to have those contracts available and in place as part of the agreement. As it turned out, and it was expected that both of those would be concluded with the transit authorities prior to July 15.

With respect to Boston, that was concluded. With respect to Chicago, it has not been finalized. I'll ask Mr. Jones to update committee members on that because it will be finalized within a short period of time. But he can provide the details on that because he's been involved in all the discussions and negotiations with Boston.

But under the terms of the agreement, the government was responsible for having those contracts in place. So if, taking a worst possible scenario and if those contracts were not in place, the government would be liable for costs associated with that undertaking to the company. So the reference to the \$750,000 isn't an additional amount; it's a clarification of what the government would have to pay out if the contract is not in place.

Under the previous agreement, the remedy to the company would have been court action against MDC for that undertaking which they made so they could then go and get costs associated with that undertaking if it didn't come to place. In the final negotiations on the closing of the agreement, it was determined the company wanted to ensure that they didn't have to go through a court process in order to determine those, so in discussions with the MDC they arrived at that figure, in essence, for liquidated damages if that contract doesn't come to pass.

But as I indicated, it was not concluded by July 15 with Chicago but it's expected to be concluded within the next short while. I'll ask Mr. Jones to provide further detail in terms of that particular clause in the amending agreement to the Share Purchase Agreement and also to update committee members on the status of the discussions with Chicago.

MR. H. JONES: Mr. Chairman, to deal with the last issue first, all the way through, frankly on a weekly basis and certainly on the day of closing itself, we were in touch with the Chicago Transit Authority. I am absolutely confident - and this is a view that is shared by people involved in these negotiations - that the Chicago contract, the legal document, will be in place within about three weeks.

Now, I say that, Mr. Chairman, because the draft agreement prepared by MDC's legal counsel has been in Chicago for approximately three weeks. The review and the Transit Authority's legal department is complete. The only item that Chicago is waiting for is the formal written report from their technical advisors. I think, Mr. Johnston, I mentioned the name Bettel (phonetic) Laboratories to you before.

The money expended by Flyer, the old Flyer, with the Ontario Research Foundation on their highly technical analysis of the problems of that Flyer bus model, was complete. Chicago has accepted in principle all the conclusions that the Ontario Research Foundation came to but they wanted a formal overview undertaken by their own technical laboratories. That is under way.

I spoke to Bettel (phonetic) myself last week and I am assured that categorically within the next three weeks, that report will be in and they have confirmed to me, at least orally, that they're in full concurrence with the program suggested for the retrofit. So in conclusion, Mr. Johnston, I simply have to say that by the end of August we expect all those matters to be concluded and the CTA retrofit can then proceed.

As the Minister said, that issue - as a matter of interest, Mr. Johnston, also it was the night before the closing on July 14 that the Boston Agreement was actually executed and again because of the complexities and time. We in fact would have seen another clause something similar to this for Boston if it had not been for that decision on the day before, on the 14th. That is now out of the way, is in place and will start to be produced at the beginning of September.

On Chicago, as I say, by the end of August we expect to see everything complete and the contemplated work activity in the company now, and in fact right from the beginning in the business plan submitted to us and to the province, clearly contemplated they would undertake both those retrofit programs starting this year, starting this fall and we expect to see that happen. The provision which we agreed to and which you referred to, Mr. Johnston, for that \$750,000 liquidated damages, frankly, that is a contingency put in there but it is not going to happen.

MR. E. CONNERY: What happens if the contract that is finally negotiated with Chicago isn't up to den Oudsten's standards? Is there some provision for partial payment?

MR. H. JONES: Mr. Chairman, this contract for the retrofit of the 200 old - I'm using the word old in relation to the previous ownership - Flyer buses has been a matter of negotiation between Flyer and Chicago for well over a year. All the details, the scope of work, all the technical aspects, are fully understood and agreed to by den Oudsten. They're not in any doubt at all about the kind of work that has to be done. They have agreed with the program. I would fully expect them to undertake this program in a manner that's going to satisfy them as a company and satisfy the CTA.

MR. E. CONNERY: But the question wasn't answered. What if the contract isn't up to what den Oudsten thinks is a proper contract?

MR. H. JONES: I'm sorry, Mr. Chairman, I don't really understand that because the terminology of the contract, including the technical specifications, have been reviewed by both parties and there's complete satisfaction with them so I'm not sure whether I understand the question.

MR. E. CONNERY: So it just depends on whether the Chicago investigations agree with the Ontario report. Is that basically what it is?

MR. H. JONES: Well essentially, but we do know, as I mentioned earlier, that they don't have a problem with the Ontario Research Foundation conclusions.

MR. F. JOHNSTON: Well, Mr. Chairman, I'm reading Section 315 of the main agreement, "All such contracts are in good standing and the corporation is not in breach of any of its obligations under any of such contracts."

Now, when we come to the 15th of July and the government has not been able to confirm or deliver that contract to den Oudsten or the new company, can the contract be negotiated on the basis that we're not able to deliver that one. I know that there's been negotiations going on and it's hard to drop, but what is the basis of the . . . you know, the Minister says that it's not a sum of \$750,000.00. The government hasn't been able to deliver it, it's not delivered as yet. What is the reason for \$750,000.00? Did den Oudsten say that we can't sign the union agreement, we can't keep these people working, we've got to have this type of cash-flow. This particular agreement between the government and den Oudsten for \$750,000, how is it arrived at? I mean, that figure of \$750,000.00.

MR. H. JONES: Mr. Chairman, well firstly let me just clarify something, Mr. Johnston. This had nothing to do with the union agreement. The union agreement had been signed before this aspect was being dealt with on closing.

The \$750,000 figure frankly results from a series of negotiations. The Dutch put up one position, MDC, the province put up another position and after much negotiation, there was a compromise and that was the figure that was agreed to.

Let me put it this way, the legal advice the Dutch were getting clearly influenced them to look at this as an issue as if it were any other kind of contract where one would spell out clearly an amount for liquidated damages. Their intention, as I said earlier, Mr. Johnston, was to keep that plant fully occupied as quickly as possible and that of course is one of the reasons for making those two contract conditions precedent. It was unfortunate that on closing we could not provide the documentation. But, again, I say that is forthcoming and the \$750,000 will not be paid.

MR. F. JOHNSTON: That's a very definite or firm statement, Mr. Chairman. We haven't got the order as yet.

I would ask, just to follow up the Massachusetts Bay Transportation Authority Contract and when we follow that through on Page 4 (not regarding the Massachusetts Bay Transportation Authority Contract) that indicates that if it's not settled, we could have the same thing. Mr. Jones, am I hearing correctly when you say that the Massachusetts Bay Transportation Authority Contract is settled before the 15th?

MR. H. JONES: We have an executed document, a contract between us and MBTA has been executed. It's signed; it's filed. There's no question whatsoever about the Boston contract not being in place. As a matter of interest to you, Mr. Johnston, and to the Committee, one of the Dutch principals, myself and

Mr. Frank McCann are meeting in Boston tomorrow to finalize the scheduling. The reason for my presence is obvious, that it's money that is being provided by the province for this work.

In addition to the Retrofit Program, we have agreed to negotiate it before the change of ownership. Boston are, in fact, asking the new owners, when these buses are stripped down in Winnipeg, to undertake significant extra work which is work that will be paid for by Boston. So that contract is not only as was negotiated by us as a Retrofit Contract with certain sums of money set aside under the warranty claim, there is new work being attached to it which is interesting and I think pleases the new owners and frankly pleases MDC very much. It's a good contract.

MR. F. JOHNSTON: Mr. Chairman, by the way, I was not at the second meeting of Flyer. If I repeat any questions, I would ask the Minister to inform me.

On Schedule 5 of the agreement, we've got a list of the leased assets. There is quite a list - well, there's not quite a list, but there are a couple of vehicles, especially one, a BMW 533 1983 at \$637 per month. Who was driving the BMW and was it the board that gave authority for that person to drive a BMW?

HON. E. KOSTYRA: I'll just provide a partial response and then Mr. Jones can provide the detail. That leased car was one that was absorbed when the board of Flyer three years ago hired a CEO by the name of Mr. Clark. That leased car was one that was absorbed; it was the same leased car that he had in a management position at Spiroll Kipp Kelly. The lease arrangements were absorbed as part of the employment contract that Flyer entered into at that time with Mr. Clark as CEO. It was the vehicle that was supplied to him under lease arrangements when he was employed with Spiroll Kipp Kelly. It's the same car that he had when he was in a similar position with a private sector company.

I would just add, in addition, that in 1981 the board reduced Flyer's fleet of executive cars from 18 to 4. Mr. Jones can provide details in terms of the contract that was entered into with Mr. Clark.

MR. H. JONES: As the Minister said, Mr. Johnston, that formed part and parcel of his contract when he came on board in 1983. I indicated when the Free Press spoke to me yesterday that hindsight is fine, but three years ago, the board of directors of Flyer then had been made aware of the fact that the lease arrangement had been taken out under the previous company and we were requested, in negotiating the CEOs' salary and all the other arrangements, to take that lease over and the board made that decision at that time to do so.

I indicated to the press also last night that if a similar case was coming forward to date, clearly that would not be permitted. But, unfortunately, that was a trend in Flyer over the years and was, unfortunately, not stopped in 1983. But Mr. Clark, under his contract with Flyer, has left. We fulfilled our obligations under that contract to him and he has chosen to take over the responsibility for that car. It's finished.

MR. F. JOHNSTON: Mr. Chairman, I don't recall any BMW's previous to this one. I will check with Mr. Banman.

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HON. E. KOSTYRA: There were Lincolns and Cadillacs before, as part of the 18, pre-'81, if you want to know.

MR. F. JOHNSTON: Well, that's fine. But we've got a board that takes over a contract for a BMW 533 and we have a situation where the board gave this Mr. Clark a contract and within a very short while was not sitting in the president's chair and not doing the job of the president. So we have a situation where the board takes over a contract that seems to be quite expensive and the other thing is that the gentleman did not work in that position for a very long time. So we have a situation that - it's past, it's hindsight, as Mr. Jones said. We have a situation where we paid out a lot of money for personnel and for him to drive a BMW while he wasn't even the president for a while, which is not a good situation.

HON. E. KOSTYRA: I agree with the member. As I indicated, that was the vehicle that was leased for him when he worked for Spiroll Kipp Kelly and, although I wasn't the Minister at the time, I presume when he entered into the discussions with the board on his employment contract with Flyer, indicated that he wanted to continue that lease, the same as he had with the private sector company, Spiroll Kipp Kelly.

I think the member heard my comments with respect to the other 18 executive cars that were in the Flyer fleet prior to 1981, which were reduced to four. They may not have included a BMW, but they did include Lincolns and Cadillacs for the then executive under the regime at that time. Clearly, that is something that would not be agreed to under any circumstances in terms of a contract at present for any new executive of any Crown corporation.

MR. DEPUTY CHAIRMAN: Mr. Johnston, do you have any further questions?

MR. F. JOHNSTON: Yes, I have. Mr. Chairman, the cost-plus payments to den Oudsten for all the retrofit work, there has been an amount of money, I believe \$13 million set up for warranty reserve. Who will supervise that warranty work? In other words, den Oudsten, if they have to do warranty work that is paid for by the government or the Development Corporation, who will be responsible for supervising that work? It's on a cost-plus basis.

MR. H. JONES: Mr. Johnston, the work, obviously, clearly is being undertaken under the management of the new owners. On a weekly basis, MDC is to be provided with, No. 1, a production report; No. 2, a certificate validating the hours of work and the work that has been undertaken.

The Provincial Auditor and MDC sat down together a week or so ago and we've developed a system whereby there will be some test audits done right up front and all the way through this program. If, Mr. Johnston, part of your question is related to a physical presence in the plant, then that of course is not going to happen. But we are satisfied that with the arrangements that we've put in train, we will be very, very sure of the hours that are worked, the work that is undertaken, and the communication agreed to by

the Dutch, whom we will meet every week, plus the reports we will be getting from the Boston resident inspectors. There will be a resident inspection team in Winnipeg from Boston; so there will be a three-way communication from MBTA, from den Oudsten, to MDC.

MR. F. JOHNSTON: Mr. Chairman, as you're aware, I'm not talking about the amended agreement at the present time or the amendments to the agreement; I'm talking about the agreement which is dated April 10. Mr. Jones mentions that this was just decided last week? Was it in the agreement before that there was a system put forward to make sure that the government would be involved and supervising or receiving reports on this work that the government will be paid for on a cost-plus basis?

MR. H. JONES: Mr. Johnston, let me clarify. It certainly wasn't decided last week. The format and the processes were formalized between us last week. Right from day one, before the main share purchase was agreed, it was signed as a clear understanding on the part of both parties that we would require effective monitoring.

It was agreed to in the negotiations and we developed the process and finalized that process in a documentary way last week. I should stress that the Provincial Auditor's people have been most concerned with that aspect. My understanding now is they're very satisfied with what we put in place. Work, of course, hasn't yet started.

MR. F. JOHNSTON: When will den Oudsten start to manufacture its own design of bus in Manitoba?

MR. H. JONES: My understanding, Mr. Chairman, is that these Retrofit Programs will commence, as I said earlier, in September and continue through probably until the end of June. Concurrently, den Oudsten are already working on a prototype for adaptation to the North American market for their product.

I think I mentioned in one of the earlier committees, Mr. Johnston, that we would expect to see them actively bid, without question, first in the Canadian market towards the summer of next year and probably there would be introduction and delivery by the end of 1987. That is what we expect to see.

MR. F. JOHNSTON: Mr. Chairman, it takes about nine months from the time you bid or start bidding until you actually come up with a contract for manufacturing. That seems to be the pattern, in not only Flyer, but all the people bidding on the contracts. They appear as if they're going to have some work, according to Schedule 11, and possibly the Chicago contract. With that type of a schedule, you are saying that they are going to be bidding on buses towards the beginning of 1987 and hopefully start to make buses for the North American market, if they get the contracts, by the fall of 1987?

MR. H. JONES: I think, Mr. Johnston, to perhaps go back to some statements which were made at the last committee, we talked about the other products that this company has. There are 13 different types of buses that are part of that technology transfer arrangement.

I think I did specifically mention, for example, that in 1987, one of the first pieces of the North American market they are very confident in penetrating is the shuttle-bus market, and they're contemplating the sale of somewhere between 26 and 30 shuttle buses before the end of 1987.

I think I also mentioned, Mr. Johnston, and I'm not quite sure how far I went, but if one takes, for example, the City of Toronto, the Toronto Transit Commission and it's reasonably public knowledge, TTC are actively looking for articulated trolleys with an order, I gather, to be tendered very quickly. In fact, a few months ago, they had tender specifications out all over Europe for a new design of an articulated trolley.

They have already met at a very senior level with the den Oudsten people. It's not for me to go into detail on how the den Oudsten people will negotiate, but I was with them at the first meeting and the prospects really are excellent. Now, when precisely they will be produced, Mr. Johnston, I don't know, but certainly in 1987 their own production will probably be fairly minimal, but in 1988, they expect to proceed very quickly.

MR. F. JOHNSTON: Mr. Chairman, the bidding of den Oudsten is going to be bonded in 1987-88, up to \$30 million guaranteed by the Provincial Government. I've asked this question before but the answer I received was there was no risk in this because it would be insured. Den Oudsten was, I believe, responsible for the insurance policy. I have done some asking around and I find that it's going to be very tough to buy insurance on the profits, let's say, of Flyer Industries. I would ask the question: What kind of a guarantee do you have from den Oudsten that this insurance is going to be in place, and if it's in place?

MR. H. JONES: Mr. Chairman, the first response I'd have to make to that is that there's a clear agreement that the Government of Manitoba, through MDC, would provide guarantees for performance bonds if - and only if - that insurance is available and in place. I think that in fairness to den Oudsten these discussions are very, very complex, as I'm sure you realize, Mr. Johnston, when you pursued this.

The whole question, No. 1, of obtaining performance bonds, is extremely difficult and it's a very complicated question indeed, getting the insurance coverage of that indemnity. We have had meetings with very senior brokers in Eastern Canada and we have received absolute assurance that if the province does provide an indemnity to bonds issued by reputable brokers - I'll pick a couple of large companies - that indemnity can be insured. The premium is certainly expensive but that was understood.

The whole question of getting bonds, even with a government guarantee, is not that easy and not that assured. It's going to be an interesting exercise in 1988, when den Oudsten expects to get into the North American transit market - U.S., I'm sorry.

MR. F. JOHNSTON: But Mr. Jones has made it quite clear that the government will not be guaranteeing any bonds unless the insurance is there, you have mentioned that some of your larger brokerage companies say it

is available and I imagine anything is available if you're willing to pay a real good high price for it. If it can't be gotten at a reasonable price, what is den Oudsten's position then? Will they be bidding on new contracts or not? Obviously they're going to have to find somebody else to do the guarantee of bonding, etc. What is the situation at that time? I might have missed what Mr. Jones said there; I'm not sure.

MR. H. JONES: Well, Mr. Johnston, the business plan prepared by den Oudsten contemplates their entry into the U.S. transit market, probably in 1988, but certainly in 1989. Now they would then bid for contracts in that part of the U.S. market where funds are provided from the U.S. Federal Government, from the Urban Mass Transit Authority, and they insist that those contracts have bonds for 100 percent of the value of the contract.

If, for some reason, they're not able to obtain bonds or not able to obtain insurance, with or without the government indemnity, then clearly the concentration in the marketplace is going to have to shift from that part of the U.S. transit market, elsewhere.

I did make some comments from knowledge we have of their general strategy over the next three to four to five years, that they are looking to develop other markets far more strongly than certainly Flyer was ever able to do, away from that concentration and dependence upon underfunded contracts. It's easy for me to say that, but it is contemplated that they will bid in 1988 and 1989, and it is up to us to work closely with them in terms of completing those insurance arrangements and the bonding arrangements. It's a very, very difficult area as, Mr. Johnson, you know, the insurance market in that facet is very, very tough indeed.

MR. F. JOHNSTON: I would say, and getting tougher. What is the situation at the present time with the "Buy American" program regarding transit buses?

MR. H. JONES: At the present time, Mr. Johnston, there simply is no change in the regulations, as they've been for the last number of years. We have, up until July 15 - we, MDC, the old Flyer - retain very senior legal counsel in Washington, D.C. to keep a watch on the Hill for us.

The new company are, in fact, intending to use the same source. And we heard this week that there is a bill, I gather, being contemplated through the House of Representatives now, to increase the content from 50 percent to 65 percent to 85 percent, but I couldn't possibly tell you what chances that would have. It's been done now for some time, that kind of move and, of course, there are the bilateral trade talks going on, so I don't know.

But at the moment there's no change, Mr. Johnston, from what we've had to live with in the past.

MR. F. JOHNSTON: Mr. Chairman, this particular agreement with den Oudsten has the direct payment of \$3 million; it has the training payment of \$1 million; it has a bank guarantee of \$8 million. We have a situation where we will be expanding the Transcona plant to the tune of about \$6 million, giving the company the option to buy it at its present value, not at the value after the construction. The government, if properly insured, will

be guaranteeing up to \$30 billion and \$13 million has been set up for warranty work.

I would ask this question: Was there any negotiations with other companies that would not have cost the province this amount of money? Now I'm aware that we had some negotiations with Ontario - I believe Bus Manufacture if I have the name right - and certainly Motor Coach Industries were involved in negotiations with the government. Motor Coach Industries is a very large company. I don't know that they would have had to ask for any bonding or anything of that nature.

I would also like to know if there were, and I'm repeating myself, negotiations that would not have cost the Government of Manitoba this kind of money to sell, or to get somebody to purchase, or to pay somebody to take it - and before the Minister puts my words in my mouth I said that last year we might have to pay somebody to take this company - but we've certainly paid a lot and I would like to know if there were negotiations that could have been better for the Province of Manitoba. Is the government willing to come forward with the negotiations or tell us who they were negotiating with so that it can be followed up?

MR. CHAIRMAN: Mr. Kostyra.

HON. E. KOSTYRA: Thank you, Mr. Chairman.

Again, this scenario we went through I thought in quite a bit of detail on June 26 in regard to negotiations and we certainly had some general discussions in the past. As the member is aware, the negotiations on the divestiture of Flyer have been going on for, I guess some 18 months now, going back two committee hearings and reports of Flyer when we first indicated that it was the government's intention to divest of Flyer Industries. There's been a long list of companies, individuals and other sort of groups that have been involved in discussions with MDC over that period of time with respect to the possible purchase of Flyer.

Some of them were determined not to be serious contenders, companies or individuals that did not have the ability to take over a company like Flyer. Others that we sought out did not follow up on interest because MDC went and shook the bushes in terms of likely candidates and, indeed, the two that the member made reference to were ones that we approached to get involved in Flyer and those two in particular were involved in discussions with Flyer.

The fact was that, at the time of the conclusion of the den Oudsten agreement, that was the only active negotiations taking place with respect to divestiture. As I indicated with respect to Motor Coach, they decided that they were not going to pursue their interest late last year, and they withdrew from the negotiations. So that was the only option, other than the closure option, which the government was obviously considering with respect to Flyer.

But there were negotiations or discussions over the 18 months and, as I indicated, we provided some detail on that at the last committee hearing. The fact is that the final result was the one that's before us which, as the member indicated, that will cost the government and the people of the Province of Manitoba slightly more than what it would cost to close Flyer as of this July, as of the same date of the closing of this

agreement. However, we believe that this is the best option for Flyer and will provide a good opportunity for an ongoing, viable private sector company.

MR. F. JOHNSTON: Mr. Chairman, I just ask the Minister directly. Did you have an offer from Motor Coach Industries?

HON. E. KOSTYRA: Yes, there were a series of negotiations with Motor Coach Industries. Motor Coach withdrew from the negotiations late in 1985. They were not prepared to continue negotiations for their own, I guess, corporate plans. They were not prepared to continue, and the government was in the process of offers and counter offers with them. Negotiations were continuing, but they decided that they would not continue those negotiations and withdrew any offers they made.

MR. F. JOHNSTON: Did Motor Coach withdraw because they had put in a stipulation that if they hadn't heard from the government by a certain time they felt that the government wasn't interested?

HON. E. KOSTYRA: No, I think they made a decision that if they weren't concluded by a certain date that they would not continue, but the negotiations were on a very active basis. In some cases they were daily, and in some cases they were within weeks, so it wasn't that we were sitting on an offer from them. There were counter proposals going back and forth on a regular basis with them once negotiations reached an active stage which was in the latter part of 1985.

MR. E. CONNERY: I perused that original agreement. I haven't got it up with me. Just a question, in purchasing the company, did they purchase the shares in the company and then have the losses that Flyer incurred to be carried forward to in their own benefit?

MR. H. JONES: We actually dealt with that at the last committee but, yes, they did acquire the shares. Because of the share acquisition, the tax loss carried forward legally is available to them. We had some discussion on that issue, I think, at the last committee or at the previous one to the extent that if they realize anything from that tax loss carry-forward and if those sums are not utilized in Manitoba there is an adjustment to the purchase price. So we went over that, I think, on the 24th.

MR. E. CONNERY: What was the total amount, if you don't mind, of the tax losses that den Oudsten can carry?

MR. H. JONES: Well, it's in the annual statement at the very back.

MR. E. CONNERY: \$43 million?

MR. H. JONES: Well, yes, that is the available. Certainly, they may not be able to use it to that extent, but that is the tax loss carry-forward.

MR. E. CONNERY: So the cost to Manitoba in loss of tax revenue would then be much greater than what

we're showing in the release. We're not going to collect our share of profits until they've cleared off that \$43 million. What would that cost Manitoba? I don't have the figures. On \$43 million of income, what would that cost the Province of Manitoba?

MR. H. JONES: Mr. Chairman, first, they can't utilize all the \$43 million. There's a rate that's applicable, but if and only if they can realize the savings on that tax loss, then, as we said, if it's not invested or reinvested in Manitoba, the government will receive 25 percent more of what is realized to the purchase price. They bought the shares for a million, if they realized 5 - and it's hard to conceive of that in the early stages - then we would get 25 percent of that 5 million added on to the million. There is an adjustment formula which we described at the 24th of June meeting.

I think there is some reference that the Touche Ross and Company made on that aspect in terms of the

time availability that can be used. Also, they would have to generate very large profits and have to pay significant tax before they could realize anything.

MR. E. CONNERY: Have you an estimate of what that could be to the Province of Manitoba if they made those kinds of profits?

MR. H. JONES: I don't at this committee, Mr. Chairman.

MR. DEPUTY CHAIRMAN: Any further questions? Pass.

That completes the report of the Manitoba Development Corporation in regard to Flyer Industries. Committee rise.

COMMITTEE ROSE AT: 11:20 a.m.