



Legislative Assembly of Manitoba

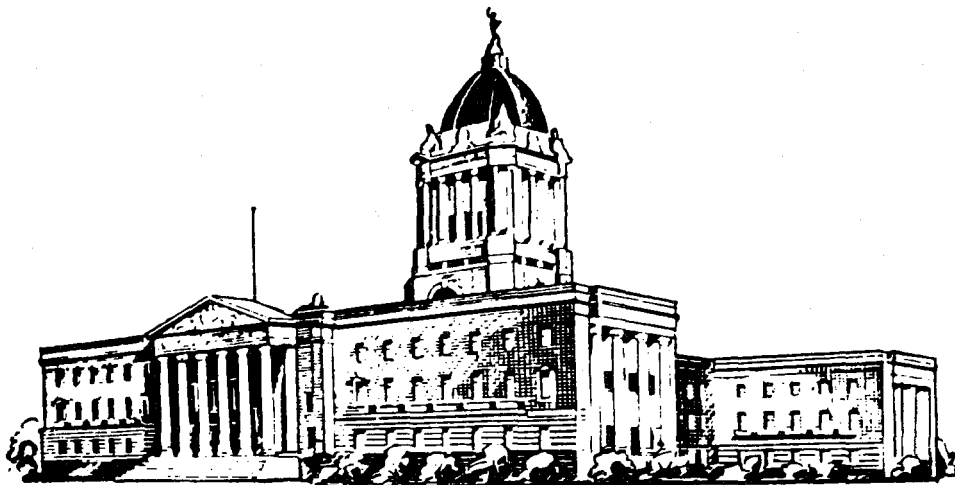
STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

Chairman

**Don Orchard
Constituency of Pembina**



Tuesday, May 15, 1979 10:00 A.M.

**Hearing Of The Standing Committee
On
Economic Development
Tuesday, May 15, 1979**

Time: 10:00 a.m.

CHAIRMAN: Mr. Don Orchard.

MR. CHAIRMAN: Gentlemen, we have a quorum. I call the Committee of Economic Development to order. The first order of business, Mr. Banman.

MR. BANMAN: Mr. Chairman, I would like to ask Mr. Parsons, Chairman of the Board, to present the statement of MDC for the last fiscal year. Mr. Parsons, please.

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: I understand that the Committee has been supplied with copies of the Manitoba Development Corporation statement for the year ended March 31st, 1978 prior to this meeting and therefore, I do not intend to read in detail my previous report contained within that statement. I will, however, give a brief report on the development subsequent to this report up to our year ended March 31st, 1979.

My report for the year ended March 31st, 1978 : The profit and loss statement showed a loss of \$1,110,000 after a provision of \$2,447,000 for doubtful accounts. Our preliminary statements for the year ended 31st of March, 1979, which are unaudited at this time, are showing a profit in the area of \$1,400,000, after a provision of approximately \$700,000 for possible bad debts. If we use the same accounting principles as we have in the past, the provision that we have shown for the year ended March 31st, 1979 is excessive and will probably be reduced, therefore increasing our net profit for the year.

The financial activities of the Corporation are still suspended and, therefore, there have been no additional applications considered for the past year. At the end of March, 1979, there were only two outstanding commitments to be met by the Corporation in the way of loans. At March 31st, 1978, there were 50 loan accounts outstanding, owing a net amount of \$6,295,000 and as of March 31, 1979, there were \$4,118,000 outstanding.

The Corporation has investments left in only three companies, and they are William Clare (Manitoba) Ltd., Flyer Industries Limited and the Tantalum Mining Corporation of Canada Limited. I will be reporting on these and presenting their statements to you immediately following the report on the Manitoba Development Corporation.

The Auditor's Report for the Manitoba Development Corporation shows no variances in our accounting principles or deviations from our standard practice and, therefore, it is considered to be a clear report. I believe that the financial statements are clearly defined and the notes to these statements fully explain our procedures.

I would therefore like to go through the financial statements. If there are any questions from the Committee, I would be pleased to answer them. We'll start with the Balance Sheet of March 31, 1978 which immediately follows the Auditor's : , Report.

There are probably a couple of items under the Assets, that I'd like to comment on. The accounts in receivership, you will notice have all been cleaned up. There are none outstanding in that category at the end of '78. The properties held for resale, March 31, 1978 show at \$1,263,768. It consists of six properties. We had a small piece of land out in Brandon, Manitoba. It was on our books for \$1.5 million. We sold it for approximately \$7.5 thousand (sic). That is disposed of now. We had property in Fort Garry known as 1535 Seel Avenue. At the end of March, 1978 we had a book value on that of \$491,847.00. We sold that and made a profit of \$445,000 on it. We have a property in St. Jean, Manitoba that was valued on our records at \$40,500.00. We took a net loss on that sale of \$12,970.00. That cleaned out three of the six properties that we had for resale.

The other three properties are all buildings that we had built and are under long-term lease with options to buy and they still remain on our books. I think that's the only asset that isn't explained

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in the detailed notes to the statement. Does the committee have any questions?

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Yes, Mr. Chairman. I take it that on the statement that you have given us, and I'm sorry — where did you finish off?

MR. PARSONS: I finished off with the balance sheet.

MR. GREEN: You finished off with the balance sheet.

MR. PARSONS: If there are no questions, then I'll go to the P and L.

MR. GREEN: Okay, just go to the P and L.

MR. PARSONS: No questions on the balance sheet?

MR. GREEN: Excuse me, the balance sheet, in the equity investments and related loans we have a figure of \$15,000,811 and your balance sheet would reflect the value of the equity investments with provision for losses on accounts where there would be losses, I gather?

MR. PARSONS: Yes, that is the net amount. The full value of our investments, if you will look at Schedule 1, it shows the full value as \$37,425,126.00. We had allowances for potential loss of \$21,613,397, giving you the net which is brought forward on the balance sheet.

MR. GREEN: Now I take it that although there are provisions for then losses or a reduction in value of an asset which was purchased, there is no provision on the balance sheet for corresponding gains on some of the assets that you have.

MR. PARSONS: That is true, but you don't make a gain until it is sold, so we have never written our assets up. We have left them, the ones that have appreciated, have been left at the same value. The ones that are less have been reserved for.

MR. GREEN: So I take it that your reserves have been one way and I merely want . . . you take the loss even though it has not been sold and therefore you estimate the loss on the Balance Sheet, even though it has not been sold and you haven't suffered the loss and I'm not arguing with that, but just . . .

MR. PARSONS: Well, that is normal accounting practice.

MR. GREEN: Mr. Parsons, I'm not really arguing about whether it is normal or abnormal; I'm suggesting that if you have an asset that you paid \$2 million for but you think can only sell for \$1 million, you have reserved a million dollar loss.

MR. PARSONS: Yes.

MR. GREEN: If you have an asset that you have paid \$1.5 million for and you know it can sell for \$3 million, you have not put in \$1.5 million gain.

MR. PARSONS: No, we haven't and I think it's prudent not to because that value can change. If we were going to dispose of it, yes, but to appreciate it before disposal, I don't think. . .

MR. GREEN: Well, I'm not talking about prudence or otherwise..

MR. PARSONS: All right, what you're saying is correct.

MR. GREEN: I'm suggesting that you have reserved for potential losses, you have not made an allowance for a potential gain.

MR. PARSONS: Right.

MR. GREEN: And that at least with regard to one company, your Manitoba Development

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performance will never be seen because with regard to your shares in Tantalum, you have them shown as \$1,500,000 on your books when you know very well that they are worth \$3 million by evidence of sales in a recent period.

MR. PARSONS: Yes.

MR. GREEN: So that asset, having been . . . if that asset was dealt with in the same way as your losses have been dealt with, then instead of showing \$1,100,000 loss on your year's operations, you would show at least a \$400,000 profit.

MR. PARSONS: How did you get the \$400,000.00? Oh, I see, all right, you're taking the loss off the . . .

MR. GREEN: That's right.

MR. PARSONS: Well, what we have done in regards to these companies we've sold off, we've taken the profit now. Tantalum has now been transferred to the government. Our asset value was \$1,500,000 and we are transferring it to the government at \$3,261,825 and we're taking up the current value. So we will show the profit in our March 1980 year; next year.

MR. GREEN: Well then, apparently, you have changed what you are doing in that respect and the Minister is nodding and I want that clearly on the record that I was told by the Minister in the House that the shares were being transferred to the government for \$1,500,000.00. You are now telling us that they are going to be transferred for \$3 million and that will show up on the profit of the MDC next year.

MR. PARSONS: Our Manitoba Development Corporation Board offered them to the Department of Finance at the highest price that we were able to obtain which was \$3,261,825 and that was accepted. Yes, it will show the profit but not until March, 1980.

MR. GREEN: Mr. Chairman, I don't wish this to be passed over as if this is a matter-of-fact thing. The House, the Legislature, was told that the transfer is going to be for \$1,500,000; that the Board of Directors of the MDC had nothing to say about it; that the people of Manitoba would not lose because it was going into the Department of Finance, which was still owned by the public; and that therefore, the Manitoba Development Corporation's statement would not reflect the gain that was made by that asset.

Now you are now telling us, and I'm not criticizing you, but I want it clearly indicated that the Chairman is now telling us that the MDC profit on the Tantalum Mining shares — and I'll deal with that in a moment — will be shown on next year's books as a profit of the MDC, because of the sale value of the shares.

MR. PARSONS: That is correct.

MR. GREEN: And the Minister indicates that that is a change from what was originally intended, whereby it would have disappeared from the MDC books, and never shown us a profit.

Mr. Chairman, just dealing with that, if that — and I want to make it quite clear that if that value which was known . . . well, I'm not sure it was known before March 31, 1978, but if the estimated value of Tantalum shares were on the last year's statement, then instead of \$1,100,000 loss, it would be a profit of roughly \$400,000.00.

MR. PARSONS: Yes, that is correct. The value wasn't known at that time; the transaction was negotiated in May of 1978 to establish our share value. Up to that time, we had no way of . . . there was no sale, nor could we offer it to establish a value.

MR. GREEN: Well, I presume, Mr. Parsons, and I'm not suggesting that this should or should not be done, but I presume that in the same way as you estimate losses before a sale takes place, and put in a reserve, it is perfectly possible, and many holding companies would do it, would estimate appreciation, and show that as a part of the value of their assets. It could be done under proper accounting practices.

MR. PARSONS: Yes, an investment company, if it was a marketable share on the market, it would be easy to do. Unfortunately, with this TanCo share, as you well remember, we could only offer

it to our partners and at that particular point we couldn't establish a value.

MR. GREEN: It is perfectly legitimate for an investment company which is dealing with performance — and I realize that we didn't do it, because we were always being very prudent, and not wishing to show any optimism, and that we felt that pessimism was the better part of discretion; but that if one wanted to be optimistic, it is a perfectly legitimate accounting practice to reserve for gains, or to value present assets on the basis of current value in the same way as you reserve for losses. Is that correct?

MR. PARSONS: Yes.

MR. GREEN: And had there been an appreciated value of Tantalum taken into account — and this is all I'm getting at — on the basis of the 1978 statement, it would show, if we set the actual value as subsequently determined, this statement would show a . \$400,000 profit rather than \$1,100,000 loss.

MR. PARSONS: Just so we're talking about the same figures, their profit is \$1.75 million, so if you're going to subtract \$1.10 million, just for the record it would be a little larger.

MR. GREEN: So it would be \$1.5 million — excuse me, it would be about a \$750,000 profit.

MR. PARSONS: 650.

MR. GREEN: \$650,000.00. I'm using approximations. The point is that you would show a profit of over half a million dollars rather than a loss at that particular time.

MR. PARSONS: Yes.

MR. GREEN: And if we look at the Tantalum statement, this is absolutely shocking to me, shocking that Hudson's Bay paid \$6 million for 50 percent of the shares of a corporation that in the year that it was purchased, during that year, earned net income of \$2,339,000.00. And they paid \$6 million for 50 percent of the shares of a company that in the year that they purchased those shares earned \$2,339,000.00. So it was an earning of \$1,150,000 on that purchase before it was actually made. Is that correct?

MR. PARSONS: Well, they paid \$6.5 million which is . . .

MR. GREEN: And the earnings were \$2,339,000.00.

MR. PARSONS: It was a very prudent purchase.

MR. GREEN: A very prudent purchase and a very imprudent sale. If it was a prudent purchase for the Hudson's Bay to buy \$2,339,000 in profits in a year that they paid \$6 million for 50 percent of the shares, which means that \$1,150,000 was immediately repaid to them by the declaration of a dividend or at least by assets in the company if they wanted it, that that was made — and I would say that it was there before the \$6 million was put up. Because this is year ending December 31, 1978. Now, if it was as you have put it, a very prudent purchase, then the people who made the sale made a very imprudent sale. I don't know that many companies are able to buy \$1.5 million of profit in the first year when they put up \$6 million for 50 percent. You would say that that is a very prudent purchase. I think that's the way you described it. I would say indeed it is. I think that if I was a shareholder I'd much rather be a shareholder in the Hudson's Bay Company than a shareholder in the province of Manitoba governed by unbusinesslike stupid Progressive Conservative administration.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Mr. Parsons, for that \$6.5 million, when is it estimated that the Tantalum is going to run out?

MR. CHAIRMAN: Mr. Parsons.

MR. PARSONS: The actual mine will probably run out about 1982, 1983 and there are another

three years of mining the tailings because of new processes that have just been perfected in the last six months, so we hope to be able to extend the life probably to 1985, 1986 now.

MR. BANMAN: Mr. Parsons, the statement the way it's drafted up with the balance sheet — how long has the Corporation been putting the statement forward in that manner, showing the estimated losses and that?

MR. PARSONS: That's the standard procedure we've used right from . . .

MR. BANMAN: So there have been no accounting procedure changes?

MR. PARSONS: No.

All right. Can we now move on to — are there any further questions on the balance sheet?

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Let me try to make it doubly clear that all of the losses that were experienced on Flyer Industries, for instance, include reserves for depreciation of the Flyer Industries assets and are in the balance sheet from previous years.

MR. PARSONS: Yes.

MR. GREEN: That no assessment of value of the fixed assets of Flyer Industries Limited have been taken in recent years or at least are not reflected in any balance sheet.

MR. PARSONS: No, there's been no appreciation shown.

MR. GREEN: Now my impression is, and this impression I gained from my participation on the MDC, that the MDC fixed assets, having been purchased some years ago and being valuable assets, would be worth more than their book value.

MR. PARSONS: I would say the land and buildings would be. There again you don't know till you sell it, but the example I showed you, on the Seel Avenue property we did sell at considerably more than we had it on the accounts for.

MR. GREEN: So then — you've just given us an estimation and I would understand your caution, because you really don't know until you sell, but we do reserve losses and show them on the balance sheet. The fact is that we have been told — excuse me, you have told us that you would estimate that the land and equipment would be worth more than its present book value.

MR. PARSONS: Yes.

MR. GREEN: So then if we have been told that you couldn't get the present book value for the land and equipment at Flyer Industries Limited, at least that would not be in accord with your opinion.

MR. PARSONS: The land and buildings if they were sold should bring us in a higher value than they are shown on our balance sheet.

MR. GREEN: How much are the land and equipment valued at on the balance sheet of Flyer Industries Limited?

MR. PARSONS: Well, we're not to that statement yet.

MR. GREEN: No, but it reflects the MDC balance sheet. If we get the land and equipment on the MDC balance sheet . . .

MR. PARSONS: Including the equipment and fixtures it's 1.6. If you turn to the back of the Flyer statement, Mr. Green, you'll see it on the second page of the Auditor's Report. It gives a breakdown of the fixed assets. At the back.

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MR. GREEN: Yes, but I've got the — oh, the fixed assets are \$1.6 million.

MR. PARSONS: Yes, but you get a breakdown at the back of what they are. I think we have to take them — if you're talking about land and buildings you have to take the machinery and equipment out, because I think it would properly be depreciated, there would not be very much appreciation in that particular figure.

MR. GREEN: But the land and buildings are shown at how much?

MR. PARSONS: The land and buildings are — have you got this?

MR. GREEN: I have the fixed assets, yes.

MR. PARSONS: All right. Your land is shown at a cost of approximately \$81,000; your buildings, improvements are \$1,143,000 and they are depreciated by \$333,000, so roughly you're talking \$880,000.00. \$890,000 is the value of the land and building.

MR. GREEN: Would you agree, Mr. Parsons, that there has probably been no depreciation on those land and buildings and that one could get for the land and buildings approximately at least what was paid for them in the initial instance. That if anything they have gone up in value rather than down in value.

MR. PARSONS: Well, the land and buildings have appreciated.

MR. GREEN: Appreciated. And if that appreciation was reflected in a reduction in the reserve on the Manitoba Development Corporation Balance Sheet, one could increase the profit by another million dollars for the year 1978.

MR. PARSONS: I don't know what the value would be. It would be some increase, yes.

MR. GREEN: Yes, well, if it was a million dollars, which is what you have depreciated it down from . . .

MR. PARSONS: No, the land and buildings we depreciated \$333,000, so the balance on that — that's why I wanted you to turn to that Schedule — the balances on Machinery and Equipment, and I don't think you'd probably . . . that has not appreciated, it has worn through usage, but the land and buildings definitely would appreciate.

MR. GREEN: So if it appreciated only by the amount which you have depreciated it on the books. . .

MR. PARSONS: Then you would recover \$333,000.00.

MR. GREEN: And your MDC Balance Sheet would show a profit now with the Tantalum and the Flyer appreciation of \$1 million; \$650,000 we deducted before plus \$350,000 is \$1 million. Is that correct?

MR. PARSONS: Yes, using your figures, that's right.

MR. GREEN: Well, is there something wrong with my figures?

MR. PARSONS: No, but we would be changing our accounting procedures if we did that.

MR. GREEN: I agree. I agree that the accounting procedures of the Manitoba Development Corporation have always been done in such a way as to not in any way reflect optimism or show things better than they are. As a matter of fact, we always showed things on the cautious side to show them worse than they were.

MR. PARSONS: Yes.

MR. GREEN: Because we never took appreciation of assets. And if we did, what you have shown by two assets which we know have appreciated, is that we could turn, if a promoter in the private enterprise field was selling this Corporation, he would show a million dollar profit on what we have just discussed, rather than \$1,100,000 loss, which is the way in which the public is shown its activity.

MR. PARSONS: Yes.

MR. GREEN: You know, I think it speaks well for the Manitoba Development Corporation not gilding the lily, that on things which we have just come out with, only two items, we have turned a \$1,100,000 loss into a million dollar profit which we know exists on the Tantalum shares of at least \$1,750,000, and on Flyer Industries' fixed assets of \$333,000.00.

MR. PARSONS: Are there any more questions on the Balance Sheet?

MR. GREEN: Can you tell me what are these \$2 million? I thought we reserved as much as had to be reserved. You've got another reserve now to bring our actual income down by \$2,447,000.00. Can you tell me what we're reserving \$2,447,000 on?

MR. PARSONS: It shows on Schedule 3.

MR. GREEN: No, it doesn't. It just shows Equity, Investments and Related Loans Receivable. Can you tell us, can you tell me, and if you can't, and if it's going to hurt the Corporation, I certainly don't want to be told; can you tell me where there is \$2,400,000 in additional losses that we hadn't reserved before?

MR. PARSONS: A big portion of that was Morden, Dawn.

MR. GREEN: In other words, Morden Fine Foods had not shown sufficient reserves to take care of those losses . . . ?

MR. PARSONS: No, we took up the loss.

MR. GREEN: Dawn was . . . I thought we had shown fairly substantial reserves, if you haven't, then I want to know.

MR. PARSONS: All right. Roughly, and you'll have to excuse me because these figures are . . . At that point, at the end of 1978, we wrote off the balance on Venture Manitoba Tours which was \$465,000; Morden Fine Foods, we had not sufficiently reserved for it the previous year, it was \$1,675,881 on Morden; we completed writing off William Clare which was \$238,000; and Dawn Plastics, that had a loss, we had \$253,000.00. If you add all those figures up they come to more because there was a reversal of reserve on Cybershare where we made a profit and there was \$265,000 reduction, and Dormond, similarly, there was \$45,000 and that's out of roughly \$2,400,000.00.

MR. GREEN: All right, that explains it perfectly, Mr. Parsons, and I want to deal with it. With regard to Venture Tours, was it not the position previous to the Conservative Government coming into power, that it was felt that the Venture Tours was a Tourism activity that was to have been transferred to Tourism, and that the entire activity of Venture Tours was going to be put into the Department of Tourism, so that the losses would be shown in Tourism rather than in the MDC?

MR. PARSONS: Our Board had recommended that in view of the continuing losses in Venture Manitoba Tours, which is your M. S. Lord Selkirk, that we didn't feel that the business was viable or could be made viable and we suggested that it be transferred to the Department of Tourism and that they establish a grant to be given to that company out of general funds and include it in their budget. And for the last year of operation, it was actually, although we took in the loss here, it was actually under the Department of Tourism.

MR. GREEN: And that is exactly my point, Mr. Parsons. Did not the previous administration agree that since this activity was essentially, had been maintained as a tourist activity, that for at least two years prior, or at least a year-and-a-half prior to the government changing, it was being operated on the basis that it was not a commercial activity and should be borne as a tourist activity rather

than an MDC activity, that this \$445,000 has been a charge to the MDC which the MDC never thought it would have to bear, and Mr. Banman is saying yes. So if we add that \$445,000 as a government expense rather than an MDC expense, we have now increased our profit from \$1 million to \$1,445,000.00. Is that correct?

MR. PARSONS: Yes.

MR. GREEN: If you did not have to show that loss as directed by the government?

MR. PARSONS: You would have reduced — the loss was \$1,100,000.00. You're taking the \$4 million off of the loss, are you?

MR. GREEN: I'm taking \$445,000 off this reserve for doubtfuls, which increases your profit by \$445,000.00.

MR. PARSONS: It decreases our loss.

MR. GREEN: I've got you at a profit already.

MR. PARSONS: I know you have.

MR. GREEN: And you've okay'd my profit. A million dollars on Tantalum, excuse me, \$1,650,000 on Tantalum; \$330,000 on Flyer; \$445,000, which was a forced loss by the government on the MDC because they wouldn't accept responsibility for a tourism activity, which two years previously they said they would accept, and was reversed by the Conservative administration. —(Interjection)— Yes, excuse me . . .

In the reserve for Morden Fine Foods, that's very interesting. You didn't have enough reserve, because I assume when you reserved for Morden Fine Foods, you didn't reserve \$1 million loss on \$1 million of inventory. That's why your loss . . . Your auditor would never dream to have reserved \$1 million loss on \$1 million inventory. But that's what you took when you sold it.

You had \$1 million in fixed assets, \$1 million in inventory; you sold it for \$1 million, gave up \$1 million in loans and \$1 million in bank guarantees, and you sold \$2 million worth of assets for \$1 million. So, this \$1 million is something that your auditor wouldn't have reserved as a loss, because it was inventory, and you cannot take \$1 million loss on \$1 million of inventory, unless you're determined to take it.

So if we had not taken a \$1 million loss on a \$1 million inventory, our profit would have gone up by another \$1 million, is that correct? Well, Mr. Parsons, I'm not asking you whether you should . . .

MR. PARSONS: Yes, all right, all right.

MR. GREEN: . . . should or should not have taken it. If we had not taken a \$1 million loss on a \$1 million inventory . . .

MR. PARSONS: That's right.

MR. GREEN: . . . our assets would have gone up by another \$1 million.

MR. PARSONS: Certainly would have.

MR. GREEN: Certainly. That gives us \$1.6 million, \$2.4 million, \$3.4 million — you would have a \$3,400,000 profit, as against . . . no, no, \$3,400,000 less \$1,010,000, which means you'd have a \$2,500,000 profit, instead of a \$1,100,000 loss on that statement, just with those items.

MR. PARSONS: All right, but dealing with Morden, as you know it was a continuing loss, so maybe when we sold this off, then we stopped the drain. Now, you can say that we shouldn't have written off a million, or sold it that cheaply, but that was the only way we could dispose of it.

MR. GREEN: Mr. Parsons, that's not the only way. If the MDC would have forgiven itself \$1 million loan of Morden, and wrote off the bank loan of \$1 million, which they have done for the new purchaser, they would have immediately reduced their loss by \$200,000 a year on Morden Fine Foods.

MR. PARSONS: On interest, yes.

MR. GREEN: Yes, well . . .

MR. PARSONS: Yes.

MR. GREEN: . . . and your maximum loss in Morden Fine . . . there were years where you made some money.

MR. PARSONS: Yes.

MR. GREEN: If you had a grant of \$200,000 a year on Morden Fine Foods, would that make it a much more attractive operation?

MR. PARSONS: Well, certainly, if you had a grant it would have helped the cause. I'm not too sure whether we'd have made a profit, but I don't know.

MR. GREEN: But it would have helped?

MR. PARSONS: It would have helped.

MR. GREEN: It certainly, in the year that you made \$60,000, it would have been \$260,000.

MR. BANMAN: . . . would only have lost a quarter of a million, that's all.

MR. GREEN: No, in the year that you earned, showed a profit of Morden Fine Foods, of \$60,000, if you had a \$200,000 grant, it would have been \$260,000. Isn't that right?

MR. PARSONS: That's right. —(Interjection)—

MR. GREEN: That's right. But you have given . . . —(Interjection)— . . . we'd have lost \$200,000, that is right.

MR. CHAIRMAN: Order please.

MR. GREEN: So you have given this rugged individualist, you have given this guy, who is now going to show us how to make money, you have given him a grant of \$200,000 a year to run Morden Fine Foods, which you wouldn't give to the public company. Which we wouldn't permit you to give to the public company. The government wouldn't permit you to write off \$200,000 a year in grants to Morden Fine Foods, but you've given that to the new owner, haven't you, in effect? Isn't that what he's got? As against the public operation and the private operation, do they not have an advantage of \$200,000 a year that you didn't have?

MR. PARSONS: Yes, he has. I'm not too sure that that's going to make a profit for him. We have to wait and see. He has \$2,000 . . .

MR. GREEN: Mr. Parsons, what we do know is that this guy who's going to show us how to make money, and can do it better than we can, has been given \$200,000 a year in public money, that we would not give the public corporation. —(Interjection)— Well, you know, he's also got a \$200,000 a year grant, which we wouldn't give the public corporation. —(Interjection)— That at least puts him in . . . but Mr. Parsons, that at least puts him in a better position, does it not?

MR. PARSONS: Yes, it does.

MR. GREEN: To the extent of \$200,000 a year. —(Interjection)— Well, Mr. Chairman, the fact is that the public company in some years made money, is that not correct? Just in one year?

MR. PARSONS: One year.

MR. GREEN: Yes, and if they had \$200,000, it would have been \$200,000 higher. And some of the losses would have been eliminated. If you had the \$200,000, which this man has, would you

record what would have happened in each year? In some years, where you showed \$180,000 loss, I think it would have been . . .

A MEMBER: We saved the town.

MR. GREEN: Who saved the town?

A MEMBER: We saved an industry.

MR. GREEN: We saved the town. The public of Manitoba saved the town. The public of Manitoba . . . it was a private company who abandoned that town, after they finished giving the tax incentives which were supposed to bring them there.

A MEMBER: And we're giving them back half.

MR. GREEN: Yes, we're giving them \$200,000 a year. We're giving them . . . we're spoon-feeding, and giving public assistance to private enterprise, in order to satisfy your antiquated and bankrupt ideology, that's what we're doing.

In any event, the figures are that \$1,650,000 of Tantalum increase in assets is not reflected on your balance sheet; \$333,000 of Flyer is not reflected on your balance sheet. You have put on your balance sheet \$445,000 which the previous government said belonged, and the Board of Directors said belonged to the Department of Tourism, and you've taken a loss of \$1 million on \$1 million in inventory that no prudent businessman would take, but we are not dealing prudent businessmen, we are dealing with regressive Cnservative nincompoops.

I have no further questions on the balance sheet.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Well, Mr. Chairman, I think we've seen a classic example of what you can do if you want to start playing around with figures, and we have that here right now.
—(Interjection)—

Here we have a man who was in charge of this Development Corporation, who was dealing with the Venture Tour problem. He should realize that that particular year that he's talking about, the Department of Tourism picked up the major amount of money that was the cost of the operation; it wasn't MDC. But the problem was that we still had some on the books, and that should have been cleaned up. The previous administration formed a group, Northlands Inns, or something, that they were going to transfer this. It never happened. So we had three people involved with that particular boat. We had the MDC involved, because they still held the loan on the boat, so it had nothing to do with the operation. You had the Department of Tourism, who had a fairly sizeable chunk in their Estimates to go ahead and pay for that. And then you had the Northlands Inns on the other side, which was a sort of dormant company, lying there. And then, to keep the operation going for another year, we had to go for a special warrant to the Department of Finance.

So the whole thing was in a real mess. Mr. Chairman, I think we've . . . if you want to start taking and projecting the statement that you're disposing of the assets, whether it be the assets of Flyer Industries, the physical assets, such as the buildings and that, you can't start projecting that on the statement. If you want to start moving it around; if you take the figures that you're taking right now, then that means to change the whole bookkeeping system, and the whole way of doing it. That only would show that next year, we would not have those receivables. And whatever happens, will be showing up on next year's statement.

So it's just a matter of juggling the figures. That's all the member has been doing here. In dealing with Morden Fine Foods, we were faced with the problem the last two years of having sustained half a million dollar losses, over the last couple of years. So, if we're looking at that type of loss, even if you're going to write off all the debts owing to the province, you'd still be \$300,000 in the glue. And it doesn't take very long, over a five year period, you've lost \$1.5 million. Now, Mr. Chairman, the company . . . and one of tue big concerns of everybody was to maintain the jobs. I understand the gentleman has now operated almost a year, he's maintaining the jobs and will be going into a new growing season this year. So it is not a drain on the provincial purse. The corporation is still going and we aren't socking it into there for another half a million dollars this year.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: The reason it is not a drain on the provincial purse is that you have given a gift, and when you give a gift there is no losses. We are losing \$200,000 a year, based on the calculations that you are making on Morden Fine Foods. We have written off to that person something that we would never do to the public corporation. That is an operating expense of \$200,000 a year, plus we have furnished him with operating capital of \$1 million in inventory which he doesn't pay a cent for. And if he couldn't make a profit under those circumstances, he'd be a bigger nincompoop than the Conservatives, which he's not. Because he made a very prudent purchase.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Well, just to further extrapolate on that, if we would have kept it we would have lost \$300,000.00. Even if we would have written off the \$200,000 we would have lost another \$300,000.00. Because the history in the last two years — in 1977 we lost \$450,000, so if you take the \$200,000 off, you're going to give them a gift of \$200,000, we would have lost a quarter of a million, and the next year we would have lost about exactly the same amount. So even if you give the man a gift of \$200,000 the province would have lost close to half a million.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: My honourable friend assumes, which is not assumable, that you would continue to have as bad a performance in the next years as you had in the past years. That is not an assumption that you should make. And by the way, I have underestimated the gift. Based on the balance sheet that Mr. Buhler started with, he was being given a gift, not of \$200,000 a year, but \$300,000 a year. Because on our balance sheet we showed the inventory as having value. On his balance sheet he showed \$1 million in land and equipment, \$1 million in inventory for which there was no payment and therefore the gift was \$200,000 a year in interest and \$1 million a year free inventory, which if you take the interest on that, is \$300,000 a year that this man has been given for the purpose of operating that company. And if we use the former Conservative government's extrapolations and Mike Ward's astonishing figures, to the \$300,000 a year, the first year you have to add \$30,000 in interest, which means that the second year it's \$630,000 the third year it is \$630,000 plus interest on \$630,000, which is \$63,000 in interest. So you're . . . a full \$100,000.00. So that each year what was done to the MDC under Mike Ward's type of calculations, this man has been given a perpetual gift exceeding \$300,000 a year, and if we take it for 30 years, we will probably find that it amounts to well over — let's say 30 — 20 years times \$300,000 is \$6 million, and then if you add the compounded interest it will certainly be over \$12 million in gifts, according to the calculations that were used when the New Democratic Party government was in office.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: According to Mr. Green's calculations, if we continue to lose half a million dollars for the next 30 years we would have lost \$15 million, which means we saved the taxpayer \$3 million.

MR. GREEN: But we wouldn't have lost \$15 million, because we have given away, as I've already indicated, \$12 million. We have taken those losses. The only thing you are not doing is showing them on your books and you feel somewhat good about the fact that they are not on those books. But you have taken those losses. Those losses have not disappeared, they have been guaranteed. Under our system we could have recouped them if we improved our operation, which we would have. We could have recouped them and we could have made money. You have made it a certainty. There is absolutely no possibility of us turning it around, you have made it certain that we will lose a minimum of \$300,000 a year plus compounded interest every year in perpetuity.

MR. BANMAN: Well, I suggest to you, Mr. Chairman, that the member himself was concerned about this particular company. He knew there were real big problems there and that in the number of years that he was in charge of it, instead of things getting better it got worse. I will just say again that we saved the province by selling that company, no matter how he works it, we saved . . . the projections of the last few years and what was coming up ahead of us, we saved the province a bunch of money. Now I guess we can argue that till the cows come home and you and I won't agree on that, but that is a fact.

You know, Mr. Chairman, I feel relatively sorry for the Member for Inkster because really what happens, if you look at the MDC and the different companies that we've dealt with over the last little while, really when he came on the scene back in what? — '72 or '73 — he inherited a pretty

bad mess from the Member for Brandon East. I feel sorry for him for that, because I realize that things like Saunders and William Clare and all these things, he didn't get into that, but he had to bear the brunt of that and try and make the best of it. And it's unfortunate that he was faced with that problem, but that is the way the thing sits right now and we feel that the taxpayer of Manitoba will benefit and has benefited by us divesting ourselves of these money-losers.

MR. GREEN: I thank the honourable member for his sympathy. He's the one that I really feel sorry for. Because he took a corporation which in its last year showed a \$4,800,000 profit and he immediately turned it into a \$1,100,000 loss. I took a corporation that had a \$20 million loss and turned it into a \$4,800,000 profit. So I really feel sorry for the Minister. I really feel very bad about it. He's really a very nice guy and it's really not his problem, it's the fault of his government, but he has to live with the fact that he took a corporation . . . with his first year was able to introduce a statement of \$4,800,000 and he turned it into \$1,100,000 loss.

When he talks about Morden Fine Foods and the fact that I had problems with it, I did, Mr. Chairman. But I wouldn't have had the chutzpah, I wouldn't have had the nerve to say that we are going to reconstruct the Morden Fine Foods balance sheet. Listen to this. Write off \$2 million in loans. I wouldn't have been able to face the Member for LaVerendrye. I would have been scared. I walked into the committee room and you would have said, "You've written off \$2 million to make that corporation look good." And I couldn't stand it. I wouldn't do it. and turned that balance sheet around and showed that we're going to start Morden with \$1 million land and equipment and \$1 million inventory, they're going to have \$1 million in equity and they're not going to show anything on the books to repay the \$1 million in inventory that they've got, and going to write off \$2 million in loans, and we're going to make it a success. I would have been too embarrassed to walk into this committee and do that type of thing.

But that has been done for Mr. Buhler, who is certainly not embarrassed, walking around the province of Manitoba saying, look, Ma, I'm a great free enterpriser, I'm a rugged individualist, I can make a profit where the public couldn't. He's not embarrassed, because those are the guys who are embarrassed, and I feel sorry for them. No, I really don't. I really don't. It's the people of Manitoba we have to feel sorry for.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Mr. Parsons, on the balance sheet you show that the capital stock authorized is 500,000 shares at \$100 a share. That means you've got \$50 million worth of capital stock. Is there any repayment of interest on that capital stock or any dividends that will be . . .

MR. PARSONS: There's no interest on the 50 . . .

MR. BANMAN: Could you tell me when the bulk of that money was given to MDC?

MR. PARSONS: There was \$45 million increase in 1976.

MR. BANMAN: In 1976 the government bought or gave MDC \$45 million and MDC has never paid any interest on that?

MR. PARSONS: No, we don't pay any interest on capital. It was increased from 5 million to 50 million in 1976.

MR. BANMAN: So that's about \$4.5 million interest at 10 percent.

MR. PARSONS: Yes.

MR. BANMAN: What was that \$45 million used for?

MR. PARSONS: The majority of it had already been used. It was used to decrease our loans at that point.

MR. BANMAN: How do you mean, decrease your loans?

MR. PARSONS: Well, we had loans from the Province of Manitoba. We decreased those by \$4 million, by the input of \$45 million in capital.

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MR. BANMAN: So, you turned a loan which you were responsible for interest on — you turned that over into shares, and that meant then you didn't have to pay interest on it.

MR. PARSONS: That's correct.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Let it be recalled, that when that was done, I indicated that it was not my preference, that that was the preference of the Auditor; that he showed that you can make money with a pencil. I never ever suggested that we were doing that.

MR. BANMAN: Well, Mr. Chairman, I think that's what we've doing all morning. I think the member just hit the nail on the head; he has been making profit with a pencil here this morning, and I appreciate him coming up with that statement.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Mr. Chairman, I can't sit by and hear the Member for Inkster talk about feeling sorry for the people of Manitoba and referring to our party for some of the things we've done as "nincompoops" because on Page 2, you look at the Venture Manitoba Tours of \$786,000 plus, that horror story was unfolded in Public Accounts, was never reported by the media, but it is there, is a company that was not run properly, never held meetings and didn't have a proper control over expenditures or anything.

You've got Evergreen Peat Moss at \$325,000 but Mr. Green feels sorry for the people of Manitoba. I feel sorry for the Member for Brandon East because he sat in the business tank with a bunch of cobras, and I see on Page 2 that you sold the property in St. Jean. Well, here's an example. St. Jean Sportswear, the former government, there they have a building and they take out a chattel mortgage on a building and 100 sewing machines and some office equipment. The business cobras decide it's time to fleece the government. So by the time the government gets out there to inspect their assets because they're too lazy sitting here in Winnipeg, what do they find? They find 100 old, used sewing machines that don't work, they find a company that has closed down and laid off 17 people, they find a building that is completely stripped of all workable type of materials, they find the new office equipment has been replaced with a pile of old lumber, and they find that half the material is missing.

What happens? The government has to take whatever they can get and they lose a quarter of a million dollars, I believe, or certainly \$180,000, and in comes the business cobras, they pick it up for \$32 or \$50,000 and they form a company called HASH. They then go back into business one month later with the same business that was there before, St. Jean Sportswear, making jeans, two months later they open up a company called HASH making jeans, who's the loser? The businessman, the Member for Brandon East was a patsy for the business cobras that know how to move around and take governments for an advantage.

The same thing with King Choy. They were already broke and the government loaned them a quarter of a million dollars. These are the kind of things that, yes, I feel sorry for the people of Manitoba because of the money they've lost in the past; I feel sorry that we didn't run Morden Fine Foods in a profit way; but I think we've got out of those things and I think we no longer are going to have to answer to the people of Manitoba because we have very little left and we are not continuing to be the soft pillow for the business community who seem to feel that the government was easy to take advantage of, and boy they sure took advantage of us.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, my honourable friend has a very selective memory. There is absolutely no doubt that the Manitoba Development Corporation got into some problems, some serious problems, in some of the attempts that it made to try to create jobs in the province of Manitoba, which appears to be your only criteria. But, Mr. Chairman, on the balance of performance, the Manitoba Development Corporation lost more money and continues to lose more money in one venture that was a capitalist experiment than they have lost in all of the socialist experiments put together. The amount that has been lost in CFI is \$90 million minimum.

The total amount that was lost in all of the enterprises that my honourable friend is referring to, is in the neighbourhood of \$65 million, and on CFI you continue to lose more money each year than you have lost on all of the corporations each year under the New Democratic Party, with the exception of —(Interjection)— no, Flyer lost in one year, Flyer lost in one year by bookkeeper's losses, \$16 million, which had to turn around into a \$4.8 million profit because of the reserves

and otherwise. But they continue to lose. Does my friend or is my friend aware that CFI continues to lose \$10 million every year, after writing off \$50 million in capital, and another at least, \$35 million in interest-free type of equity, which is \$8.5 million per year in interest forgiveness, plus \$10 million in actual losses? That's \$18 million every year.

And you talk about St. Jean Sportswear, and Evergreen Peat Moss where there was a loss of \$300,000, together with a private firm? Do you know that in Churchill, in Columbia Forest Products, the Conservative administration gave the people who were running that thing a blank cheque, said that the government of Manitoba will advance such capital as the principals need to keep it in operation, and that was \$4 million when \$4 million was worth \$8 million, compared to today's figures.

Do you know that Venture Tours was a public salvage of a private enterprise debacle? That the Conservative administration advanced \$750,000 and nobody ever knew about it because we didn't have meetings like this, and it was all a secret, Mr. Roblin said it had to be kept a secret, \$750,000, to build that ship, and after one year of private enterprise management it went belly-up and we were left with a loss of \$755,000?

Do you know that Prairie Foundry lost money, that Dent's Foods lost money? Do you know that these losses are all advances by the Conservative administration under the Manitoba Development Fund? And that if we take the totals, and I'm not happy about losses, but whoever makes them if we take the totals — we're pikers at losing money compared to the Conservatives and they lost it in years when the money was worth almost twice what it is worth now — so if you have to take the figures, you have to add to them. Those figures have been reduced by virtue of inflation.

MR. WILSON: That's the very point I'm making. Since our government's come on the scene, and I say a new government — because there's former Conservative governments, former Liberal governments, former ND governments — and since our government has come on the scene we are looking at new ways to hold public account meetings so there will be accountability, there will be these type of meetings which are open to the public, and so we won't have New Democratic losses of \$65 million, partly responsible losses of former Conservative administrations of upwards to \$90 million, what we will have is, we will no longer have people getting \$225,000 loans after they have gone broke. We won't have people fleecing the government, and in the newspaper it says criminal charges may be laid, none of these people ever had criminal charges laid against them and this is the thing that galls me, except with the exception of Kasser, of course, but when you have these guys take 100 working sewing machines out of a jean factory, replace them with a bunch of iron, strip the walls and everything else, literally fleece the government, and no criminal charges are laid, the government just bows its head and bails out, these are the type of things that give you a reputation of being a patsy.

I think the new reputation is that the government now and governments in the future are not going to be giving out money unless it is going to be job-creation type of industry, not bailing somebody out. Probably the reason they originally got into it was they told them they were going to hire about 30, 40 people making jeans. I don't know the reason they first got into this situation. But certainly, the way they got out is an apology that I hope none of us have to make in the future for any future loans, because it just seems to me that from this day forward if nothing else that we should certainly be glad that there is accountability to the public on many of these things that are before us now.

MR. CHAIRMAN: Mr. Parasiuk.

MR. PARASIUK: Mr. Chairperson, I'm amazed that the member of Public Accounts, namely the Member for Wolseley, didn't attend the Estimates review of the Department of Economic Development, because he would have found out in that department's Estimates review that this government is going to give away at least \$5 million in grants, in grants, which won't show a loss, but really if you use that accounting system will be a loss of \$500,000 a year. —(Interjection)— plus the \$5 million, that's right. From what you are saying, because you're the one attacking the private sector right now, you're the one attacking the small ones, you're calling them a bunch of crooks, and I'm amazed that the Minister of Economic Development isn't getting up and saying, no, they're not a bunch of crooks, you called them cobras, you went beyond that, though, you went quite beyond that and you said that they fleeced the government; that they stole equipment; they stole that equipment; and you're amazed that criminal charges haven't been pressed.

And what you are basically saying is, we shouldn't deal with the private sector. Now, why will you give them grants? Why will you now give them grants? Because you're afraid to deal with them? Because if you make a loan with them, you may have an ongoing negotiation where you might have to be tough. So you want to get out of all of that by dealing with them in a businesslike

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manner by giving them grants, is that a businesslike manner? Tell me what other business in the world gives grants to its competitors or to other businesses? —(Interjection)— You tell me what other businesses — no, you do, you are the ones doing it. The Conservative government is the one giving the grants, the Conservative government. And the Liberals, I don't think there is a great deal of difference between them. —(Interjection)— That's right. Now, they don't act in a businesslike manner, and you're the ones saying that we should act in a businesslike manner. I'm amazed that the Minister of Economic Development hasn't said that you're wrong in attacking these private people.

I was told that this is the group, this bunch of crooks that you're talking about, is going to build up our economy. I think that they have a role to play in our economy, —(Interjection)— no, no, you are saying, you selected some —(Interjection)— no, you never, you are saying this because of these crooks that the government shouldn't get involved. That's what you are saying. That's what you said specifically. Okay, but you went beyond that and you said that they fleeced the government, they fleeced the government and they should have been charged. Should they have been charged as crooks or cobras?

MR. CHAIRMAN: I wonder if the member, Mr. Parasiuk, could address his remarks to the Chair?

MR. PARASIUK: I'd be delighted to, Mr. Chairperson. Through you to my learned friend here, through you, I'm wondering if he would have wanted to have them charged as cobras, or as garter snakes, or what?

MR. WILSON: Whatever they were, they moved away.

MR. PARASIUK: They did not move away when you called them HASH, H-A-S-H, is that what you called them?

MR. WILSON: He was the benefactor.

MR. PARASIUK: He opened up another business, correct? He went broke again. Undoubtedly he will come to you and ask you for a grant. Undoubtedly he will come to you and ask you for a grant. I might point out that he also went broke in his great milieu of private enterprise that we're talking about right now.

MR. GREEN: If he didn't get any money from the MDC, how did he go broke?

MR. PARASIUK: The point is that the attack on that program has come from the Conservative side of the House, and in the review of the Minister's Department of Economic Development, because we're talking about an economic development committee and the MDC is one instrument — which by the way isn't working any more in terms of a continuing instrument — the Minister of Economic Development said, yes, we have a problem with Venture Capital in Manitoba, so what is the body that will fill that gap?

Will it be Izzy Asper's company that invests in the States using taxpayers' money through the Canadian Development Corporation? Will it be private banks which aren't providing venture capital? Who will it be? Who will it be, and how do you provide venture capital? You provide venture capital in a mixture of loans and equity. That's the way business people provide venture capital.
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Now what we have in Manitoba right now is a really big problem that I think we have to address ourselves to. We don't have a body that provides venture capital, and that will create a problem for small business people in Manitoba who want to get involved in business. We have admitted that this Manitoba Development Corporation will not make any loans any more and that's because of government directive. So you tell me whether in fact this entity should continue or not because if they don't continue to undertake new loans, where will we get venture capital in this province? Because we won't get it. And if we don't get venture capital in this province they will leave this province. The small business person does not have a future in this province without venture capital, and you people should know that. You people should know that.

So when the previous administration, having I think inherited a lot of lax ideas and methods in dealing with the private sector, started tightening the screws, started tightening the screws, started to be tougher in the way that the Member for Wolseley says we should. Okay, fine. Do you want to then destroy the MDC? That's the key question that has to be asked, Mr. Chairperson. Do we want to destroy the MDC? Do we want to have no venture capital fund in Manitoba, because if

we replace that with a give-away program, let's start accounting that give-away program properly. Let's start recognizing that it is completely unbusinesslike, and let's start calling it what you people get very upset when it's called, that is, Corporate Welfare. That's social assistance of the worse kind. Now, I would think that no self respecting business person would want that — self respecting business people will say, "Yes, we need access to venture capital." That's what they always say. I've yet to hear a selfrespecting business person say that he needs gifts. They said, "We need access to capital. We don't want gifts." You people keep forcing gifts down their throat, gifts that amount to \$500,000 a year, and we're talking about \$5 million, and that's just the start — that is just the start. And are we giving these to fleecers? Because what's our system of checking then?

If you are saying that when we gave a loan to a company we didn't check it up hard enough. —(Interjection)— That's what you are saying? Well, tell me what accounting system we have and monitoring system we have when we give gifts. What kind of a monitoring system do we have when we give gifts? And I'm amazed that here you talk about this, but you didn't attend the Economic Development Department's Estimates Review? You don't want to talk about gifts. You don't want to say how do you monitor gifts, because if you've got a concern, then you're concerned about the way in which the Manitoba Development Corporation operated. That's not a government policy to review whether, in fact, the collateral is secured and checked, that was an operational problem that should have been corrected, and I assume has been corrected. That's the criticism you have of it. It's a valid criticism, and I would hope that the Manitoba Development Corporation in the past had developed a system of monitoring, but they're not being used any more. We're throwing them out. We're replacing a body that could monitor, that could assess business propositions, with a group that doesn't have any way of monitoring their gifts and in fact really hasn't established any criteria for evaluating success, and if that's the alternative, if that's the alternative to what existed before, it's a horrible alternative. It is a complete give-away program that won't build a strong business community in this province, that'll build a weak and dependent business community.

And we talk about dependency, we talk about dependency developed by the Department of Indian Affairs, we talk about that dependency relationship which has been developed over a hundred years, and now here we are in 1979 trying to foster a new dependency relationship, not based on loans and repayments, one based on gifts, one based on Social Assistance, and that right now is the sum of the economic development programs of this government. That's the sum of it. You don't even leave yourself an option, the option of the Manitoba Development Corporation, to negotiate, to lay down conditions, to monitor. You don't leave yourself that option at all. You prefer the easy system of give-aways because you know there's no accountability in it and that's why it's incredibly hypocritical of the member of Public Accounts to get up here and say, "We have a Public Accounts system of monitoring this." You have created a system which can't be monitored, but which has to be because we are losing \$500,000 a year. Doesn't that concern you? Plus the original 5 million. Doesn't that concern the member? A gift of \$5 million, no accountability, and the Member for Wolseley says nothing about that. Do you want to explain that contradiction?

MR. CHAIRMAN: Order please. Are there any further questions on Manitoba Development Corporation's statement of Income and Expenses? Mr. Green.

MR. GREEN: But if you're intending to go to the statements, it has been the custom and was the demand in the past that since these statements are coming out for the first time today that the members of the Committee would have an opportunity of reviewing them, and that the Chairman would be back at the next meeting so that we could review the statements and deal with them at the next meeting, and I would ask for the same consideration at this meeting. That has been our standard practice, Mr. Chairman.

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: Well, I wonder, Mr. Chairman, if we go ahead with that we could then deal this morning with CEDF. The Chairman is here.

MR. CHAIRMAN: Mr. Parasiuk.

MR. GREEN: Oh, Just a minute, Mr. Parsons has a question on the Balance Sheet.

MR. PARASIUK: No, I have some questions about the report. On the back page you list the directors as of March 31st, '78. Who are the directors as of May 15, 1979?

MR. PARSONS: I'll start from the top. Parsons is the same, Arpin is on, Fenster is on, Gallagher

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is off, Hunt is off, Lazarenko is on, Loewen is on, Martin is on, Minish is off, Schwartz is on, Shnier is on, Tailleu on, and a Mr. Norman Coughlin.

MR. GREEN: Isn't that a mistake, Mr. Parsons? Wasn't Mr. Coughlin on as of March 31st, 1978?

MR. PARSONS: I though it was too, but it' not on here.

MR. GREEN: I appointed him.

MR. PARSONS: Yes.

MR. GREEN: I don't know why you left him on, but I appointed him.

MR. PARSONS: Well, all right

MR. PARASIUK: Are the officers the same?

MR. PARSONS: The officers are the same. Pardon me, Mr. Freedman has left.

MR. PARASIUK: Who's he been replaced by, could I ask?

MR. PARSONS: No one.

MR. PARASIUK: You have no general counsel then?

MR. PARSONS: No.

MR. PARASIUK: What are you doing then? Have you contracted out to a firm?

MR. PARSONS: No. We haven't done anything in the way of legal work. Any legal work we have we have always had various outside solicitors.

MR. PARASIUK: Mr. Chairperson, I'd like to ask Mr. Parsons what the staff complement of MDC is now, and what it was as of March 31st, 1978?

MR. PARSONS: Well, we're nine and a half now.

MR. PARASIUK: You're nine and a half people.

MR. PARSONS: March '78?

MR. PARASIUK: Yes, Mr. Chairperson. I'm trying to get some idea of what the reduction has been.

MR. PARSONS: I think we were down to about fourteen — fourteen or fifteen as of March '78; we're down to nine and a half.

MR. PARASIUK: Mr. Parsons, if in fact your own description of what MDC is doing right now is nothing — you say you're not doing anything, that's probably a bit unfair because you still have a couple of accounts you're monitoring — do you think that the nine and a half people is indeed too much, given the mandate, given the function, a role that you've been given by this government

MR. PARSONS: Yes, it is. Yes, we could operate with less right now.

MR. PARASIUK: So right now you're overstaffed, you're operating inefficiently, given the limited mandate that the government has given you. So what you are saying, what you have done right now is you've overstaffed, you're overstaffed because the government isn't giving you a role to play. You don't have to answer that particular question, but are you overstaffed in relation to the role the government's given you?

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MR. PARSONS: In relation to the amount of work that there is to perform at the MDC we're overstuffed, yes.

MR. PARASIUK: Right. So right now we have a body that doesn't have a role to play — the government is holding back its role — , a group that developed expertise in monitoring the extent to which the conditions laid down in loan applications were met; we're taking this group that has expertise and we're completely emasculating it, while at the same time in the Department of Economic Development we're adding about 20 people to the Enterprise Incentives body, we're building up a budget of \$218,000 for advertising in the Department of Economic Development, to advertise this incentives program, or the give-away program, while at the same time we're completely emasculating the lending and equity agency of this government. Now I'd like to ask the Minister responsible for this agency why he is allowing his own agency, which does provide a venture capital potential and has filled that function in the past, why he's allowing it to be emasculated?

MR. CHAIRMAN: Mr. Banman.

MR. BANMAN: I think, Mr. Chairman, some statistics should be put on the record here to show what has been happening over the last number of years. In the last number of years I think the — I'm saying this I think, the Member for Inkster, realizing some of the serious problems that we had with regards to this particular agency, and because of the history of some of the bad loans, the agency really in the last four years has been winding itself down.

In the fiscal year '74, we had 13 loans for a total of \$713,000, 13 new loans for \$713,000.00. In the year '75 — now this is under the Member for Inkster, and I'm not faulting him for it — in the year 1975 we had five new loans, that's all. We had 24 people there and we had five new loans for \$681,000.00. Then in 1976 we dropped to three new loans , for a whole year three new loans for \$367,000.00. 24 people there. The year after that in '77, there were two new loans for \$135,000.00.

MR. GREEN: What about McCain Foods?

MR. BANMAN: That hasn't been dispersed yet.

MR. GREEN: Ah, but it's a loan.

MR. BANMAN: Mr. Chairman, we can, if he wants to move into that, that's one loan.

MR. GREEN: And how much money?

MR. BANMAN: That's one loan for \$7 million. So, Mr. Chairman, really what has happened here is that the company — you know, you can throw this one in there — but the company has slowly been winding down over the last number of years. —(Interjection)— That's right. Under the leadership of the former member, and the figures speak for themselves — five new loans in '75 for \$681,000; three new loans in '76 for \$367,000; two new loans in '77. Well, if the member wants to use that one which hasn't been dispersed yet, it's three new loans. So Mr. Chairman, really what is happening is the thing has been winding down by itself. Anybody that can come up and say that in a year like 1975 and 1976 where you loan \$.5 million is a driving force in the marketplace, is not being honest. I think the one thing that has happened is that the Federal Business Development Bank has got more aggressively into it. We have had banks setting up separate institutions such as RoyNat who have got into the higher risk lending part of it.

So what has happened is there have been some of the vacuums that were there before, have been filled and if you talk to the people at the Federal Business Development Bank, that is indeed a fact, because that has happened. So when the member says that there's nothing happening, let me say that I don't feel that the MDC, the way it was going for the last five years, was a forceful component in the marketplace.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, let's acknowledge certain things, that in 1973, the MDC, as publicly indicated in new guidelines, were to concentrate on the existing portfolio, to try to do the best it could with some very serious problems, and that while attempting to do that, they were not to make major new thrusts. My friend will remember that they were dealing at that time with Saunders Aircraft which was getting money at the rate of several million dollars a year and last year,

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more than that. They were dealing with Flyer Industries Limited which was getting money at those rates and it was felt, and the Board of Directors agreed, that they would slow down new loans and make sure that they were economically viable. That policy did the people of the Province of Manitoba a lot of good because since 1973, the amount of losses on new loans was \$300,000 as compared to \$130 million up until that time. So the last four years, the loans on which losses were incurred, new loans, were \$300,000.00. I think that that's a pretty good record and I think that it is expected that some things will be lost by any investment company, but \$300,000 as compared to some of the good things that were done in those years was fine. But they still had Flyer Industries Limited; they still had Saunders Aircraft, and we still have Flyer Industries Limited.

But, Mr. Chairman, the record that my honourable friend shows is not a terrible record. What's the matter with a corporation that lends \$750,000 a year carefully in venture capital and those are the figures — they are more than \$750,000 a year. In the four years that my friend referred to, he is probably talking about \$750,000 in one year, \$500,000, another year \$500,000, and in another year \$7,500,000, so over a period of four years it is \$8.5 million, roughly \$10 million.

Well, Mr. Chairman, it is not administering loans of \$10 million. —(Interjection)— My friend forgets that they were also administering at that time and having to deal with loans that were requested by Dawn Plastics, by Flyer Industries Limited, although interestingly enough, the last moneys that were advanced to Flyer Industry Limited were, I believe, in the Fall of 1976.

This thing that the Conservatives keep talking about as a drain did not receive any money from the public of the Province of Manitoba during the last three years, and has been able to operate on its cash flow, has made money in three of the four years and now this year's statement shows roughly a million dollar loss which I hope will be corrected next year. But in those four years, there was \$10 million advanced by the Manitoba Development Corporation and now that some of its problems have been dealt with, it was considered that they would concentrate on seeing whether there were new areas which could be gone into on a commercial, not a "save the poor free enterprise" who can't handle himself and needs the public in order to succeed, which was the policy of the Conservative administration and regretfully continued to be the policy of the New Democratic Party after we came to government. Our mistake was following the lead of the Conservatives, and I acknowledge that. I acknowledge that that was not Socialism, that was the worst form of state-financed capitalism. And where the State took the losses, if any, and if any money was made, it went to the free enterprisers. We did that for a limited period but we stopped it in 1973 and we did make things better.

I was a little rough on my honourable friend; maybe I should feel sorry for him. It is true that much of the change in picture had to do with the investiture of capital which I never requested and continued to say I do not need, continued to say that I am not embarrassed by the loss figures on the MDC statement, but the auditor said that it was unbusinesslike to show these losses and that there had to be an annual grant by the government in order to ' . So we cover them, or a system whereby they did not accumulate have the system, as a result of which the member came in with a statement of \$4,800,000 profit rather than a \$20 million loss, which was the amount that was shown in 1973.

Mr. Chairman, I see nothing wrong with prudent venture capital in the neighbourhood of a million dollars a year. What's the matter with that? And if it works and does a good job, I think it is money well spent. It is better than spending thirty and losing it. So I see nothing wrong with the activities of \$750,000, \$800,000 a year, provided that it is in areas that wouldn't have occurred without that initiative and in areas where it had a chance of succeeding, which apparently it did. And the McCain Foods Loan is shown on the statement, Report of Assistance to be Granted for the year ended March 31, 1978, McCain Foods, \$7 million; McKay and Wasicuna, \$56,000, Paramount Biochemicals, \$500,000.00. Well, those required activity. If it requires less staff, that's fine, I don't object to that, but don't forget that the staff between those two years was not merely dealing with loans advanced, they were dealing with some very difficult problems that they had inherited from both previous administrations, and were working on them.

MR. CHAIRMAN: Mr. Parasiuk.

MR. PARASIUK: If you look at the second-last page of your report, Mr. Parsons, it's a Statistical Review and Analysis from Inception to March 31, 1978, and it says that you received 1,000, or the MDC considered 1,294 applications. Now, I would think that if you considered them' they must have been somewhat bona fide in the first place; that you had 419 declined; you approved 875, which means that this group of directors, and they are a cross-section of the business community, that group of directors felt that those business people were bona fide, they merited some attention. 231 were withdrawn; they could have been withdrawn through your assistance in part; they found alternative means of financing, because that often is a reason for withdrawal — is that correct,

Mr. Parsons? — and that ultimately 644 loans filling this gap of Venture Capital, were approved and accepted by the people seeking it.

Now, I find that that contradicts what the Minister says when he says we don't have a problem in Manitoba. Obviously, when we have statistics like that which are quite large, we're meeting a need. We're meeting an economic need which exists in this province. And if you go beyond that, these are your own statistics, the amount of assistance category, the great bulk of this assistance went to firms — the biggest group went to firms in the \$25,000 to \$100,000 category, the small business person; 169 in the \$100,000 to \$500,000 category, which again is not a corporate giant. It is assistance to small companies, 113 loans or investments in the \$10,000 to \$25,000 category, just think of that. There you have the small need being met in a businesslike manner, that is, by providing a system of negotiation for the provision of Venture Capital. And when you talk about the increase, you talk about the estimated direct increase in employment because of the role of the Manitoba Development Corporation, 11,969 jobs. Those aren't my figures, Mr. Parsons, they are your figures. I will take them at face value, 11,969 jobs because of government involvement, because of government involvement, at least theoretically, on a businesslike basis.

And in terms of the categories of assistance, industrial classification, if you look again at your own statistics, \$64 million for food processing, miscellaneous manufacturing and storage. That's what the government says and the Department of Industry and Commerce said that for a long time, that is an area of economic potential for this province. i-91 million in iron, steel and machinery, again another area of economic potential for this province. I'm reading this — I just want to make sure I get this one correctly — \$2 million in electrical products, \$3 million for chemicals, all with economic potential. The only puzzling one here obviously is \$138 million for wood products. That's the CFI. —(Interjection)— That's what is written down here.

The point about his though, is that obviously the Manitoba Development Corporation was filling a need in proper areas of economic activity — food processing, iron, steel and machinery, electrical products, chemicals, service industries, tourism, wholesale trade — that's what the department says in its rhetoric it is trying to promote. That is what it says we have some economic strengths in, that we should try and develop in Manitoba. Obviously, if you look at this general classification, the Manitoba Development Corporation was filling that role somewhat.

Now, the previous Minister says, yes, there were mistakes in the past but the attempt of the administration was to improve the Manitoba Development Corporation. The intent of this Conservative administration is to destroy it, and the Minister responsible for this agency says we are destroying it because the other institutions which provide Venture Capital are sufficient. Well, that's simply not a true statement; that is simply not a true statement. You get the same circulars that I do from the Canadian Manufacturers' Association. You get the same circulars that I do from the Small Independent Business People's Association, or Businessmens Association. They raise those problems. They say, we don't have venture capital. They say we've got a venture capital problem in Manitoba.

So I want to find out from the Minister, who is the Minister responsible for the venture capital institution that we have in Manitoba, to document why he says we don't need venture capital, that the private institutions are filling the gap or that the federal one, which has always had a bias against western Canada, why he is so confident now that that will be filled, because, Mr. Chairperson, if that vacuum isn't filled, our investment in manufacturing, which has been a traditional problem in Manitoba for 35 years, will decline even more. So I want him to back up his general statements which are easy to make. Oh yes, I have looked around and I have checked with a few friends and they say that we don't have a Venture Capital problem when the material that we all, as MLAs, get from the business associations tell us quite specifically that there is a Venture Capital problem.

So if there is that Venture Capital problem, does he feel that there is a role for the Manitoba Development Corporation? If he doesn't feel there is a role for the Manitoba Development Corporation because he feels he is not sufficiently competent to improve it further — and we were told that they would be improving it further — maybe it already reached attained perfection. But I don't think any entity attains perfection but maybe my colleague honed it to perfection, but I would have thought that there might have been just some slight room for improvement, just a tiny flaw.

But the Minister has said, "Well, we can't improve it any further. If it works it's an embarrassment to us, so let's shut it down."

Now, given that he is shutting it down and given that we've got a Venture Capital problem in Manitoba, I want him to tell me where small business people can go right now; what institutions are this government developing to fill that gap because that gap's there. What institution? He is the Minister responsible for Venture Capital, according to this designation; he is the Minister responsible for Venture Capital.

MR. BANMAN: Mr. Chairman, I am responsible for the Manitoba Development Corporation, which in the last number of years was not a force in the marketplace, not at all. And I just read the figures out to the gentlemen. If he feels three loans for \$500,000 or five loans in 1974 for something like \$800,000 is something in the marketplace, I just can't agree with him.

There are different avenues of approach. I know the Minister of Economic Development, who is looking at different legislation that can be dealt with. Quebec and Ontario are looking very seriously at establishing some legislation which would allow for Venture Capital companies, that might be the way to go. But this particular company is not a force in the marketplace and hasn't been, and I suggest to the member that a lot of the loans that are being handled or would have been handled here are being handled by FBD.

MR. PARASIUK: So, basically the Minister says that the only thing we've got going right now is the Incentives Program, the social assistance program. That's the only program that this government has in terms of fostering Economic Development, and he will rest with that.

MR. BANMAN: Those are the members words.

MR. CHAIRMAN: Are there any further questions on the financial statement of the Manitoba Development Corporation—pass — Mr. Banman.

MR. BANMAN: Mr. Chairman, I think we would deal with the coanies, with the three equity companies on Thursday morning. If there is a disposition, we could start with CEDF , if you'd like.

MR. CHAIRMAN: Mr. Green. Would you take a mike please, Mr. Green.

MR. GREEN: Yes, I'm sorry. Mr. Chairman, maybe we could do that on Thursday, because we're very close to noon now. There might be some time spent on CEDF, but I rather expect . . . See, we don't have equivalent statements with regard to CEDF. I would be very confident that we could deal with CEDF and the companies on Thursday morning.

MR. BANMAN: That's fine. Mr. Chairman, then if we could come back Thursday morning at 10 o'clock it would be with the arrainging statements and CEDF.

MR. CHAIRMAN: Then, Gentlemen of the Committee, the meeting will reconvene at 10:00 a.m., Thursday, May 17th, to consider the three company reports and CEDF. Committee rise.