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Chairperson
Madam M. Dolin
Constituency of Kildonan



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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, 8 June, 1982

Time — 10:00 a.m.

MANITOBA DEVELOPMENT CORPORATION

MADAM CLERK, Ms. DePape: I call the meeting to order. Since Mr. Scott is no longer a member of the Committee, we'll have to elect a new Chairman.

HON. M. SMITH: I move that Mary Beth Dolin be in the Chair.

MADAM CLERK: Are there any further nominations? Please take the Chair.

MADAM CHAIRMAN, M. Dolin: I believe we have quorum. As soon as the Minister takes his seat we'll begin. Are you ready to make your opening remarks?

HON. W. PARASIUK: Yes, Madam Chairperson, I have here the staff, the Chairman of the MDC and the Chairman of Flyer, plus staff from MDC and Flyer. What we are going to review today is the Annual Report of the Manitoba Development Corporation and two entities under the Manitoba Development Corporation, the ongoing saga of William Clare, and secondly, Flyer Industries.

So I'd now like to call on Mr. Hugh Jones, the Chairman of the Manitoba Development Corporation to take us through these reports and start off with his introductory statements.

MADAM CHAIRMAN: Mr. Jones.

MR. H. JONES: Members of the Committee, I might just begin by reconfirming a couple of things, that the suspension of the financing activities of MDC, those instructions are still in place with the exception of some assistance being given to our equity investments and certain loans under Part 2 of the Act.

Additionally, I reconfirm, as I did last year, that the responsibility for administering and collecting the loans presently outstanding in MDC was given to the Board of the Communities Economic Development Fund in January 1980. The report before you covers the period up to the end of March, 1981. There are presently 25 regular loans outstanding in the MDC loan portfolio. With the exception of two of these accounts, the portfolio is in a current status with the businesses, which were financed operating reasonably successfully with no apparent problems forseen. The total amount outstanding for this regular loan portfolio is just over \$11 million.

In addition to this regular loan portfolio, to which I have just referred, the Corporation under Part 2 of its Act also has a loan outstanding with the McKenzie Seed Company, A. E. McKenzie Co. Ltd., for \$3 million.

Of the equity investments of MDC, there are only two left and they are William Clare (Manitoba) Limited. You may recall from last year and previous years this is of nominal value only and will remain outstanding only as long as there are royalties due from Houghton

and Mifflin. It used to be from Rand McNally but they sold their interest in textbook publishing to Houghton and Mifflin of Boston in respect of textbooks published. The Clerk, I believe, has distributed copies of the William Clare statement.

A second one of more interest of course is Flyer Industries Limited, and the situation there from the MDC balance sheet standpoint is indicated on page 10 of the report before you. Perhaps we could deal though with the MDC itself before entering into comments or questions on Flyer. For the first time Flyer has published an Annual Report, and this has also been tabled before you I believe.

I mentioned earlier that the regular portfolio with the exception of two accounts could be considered in satisfactory status. Pages 6 and 7 of the Report before you reflect the assets and liabilities of MDC, and perhaps my only comment on these pages, I might refer to the reduction in MDCs deficit from 21.9 million to 18.7 million. This is accounted for almost entirely by the significantly improved position in Flyer. You may remember that the accounting principles agreed to also by the Provincial Auditor required that the total deficit of Flyer would be the allowance set for potential losses in MDC.

I referred last year also to the ongoing receivership situation of Saunders Aircraft, this is still proceeding and one matter now outstanding has caused a further delay. As this is a matter to be brought before the courts, it would be appropriate for me not to make further comment at this time.

If you turn to page 15 of the report before you, you will see that during the year in question MDC issued a further Guarantee of \$1 million to the Bank of Montreal in Brandon in respect to credit facilities placed at the disposal of A.E. McKenzie Company.

Again on that page, the three Guarantees indicated for Flyer listed under Part 1 of the Act were all subsequently cancelled and originally related to a significant contract for trolleys in Vancouver. The Guarantee for 30 million indicated under Part 2 of the Act is in respect of our contingent liability to the Canadian Indemnity Company for the performance bonding facility placed at Flyer's disposal.

One last comment, the Provincial Auditor's notes on pages 13 and 14 outline the arrangements with the linkage between MDC and CDF. I shall be pleased to answer questions on MDC at this stage.

We also have with us Mr. Douglas McKay, the President of Flyer and we can perhaps deal with questions on Flyer at a later stage.

MADAM CHAIRMAN: Are there any questions?

Mr. Orchard.

MR. D. ORCHARD: On page 15, the three Guarantees: the 10 million, 3 million, 18 million, did I hear you correctly, Mr. Jones, in that they have been cancelled because the contract that they covered is completed now?

MR. JONES: The contract is not completed, Mr.

Orchard, but the Guarantees were no longer required, we entered into more normal performance bonding arrangements.

MADAM CHAIRMAN: Are there any other questions?
Mr. Orchard.

MR. D. ORCHARD: Thank you, Madam Chairman. Mr. Jones, you mentioned at the outset of your remarks that there were no major loans advanced by MDC in the past number of months, the instruction not to enter into major loans still being in place?

MR. H. JONES: That is correct.

MR. D. ORCHARD: So that there are no loans, with the exceptions of the two additional Guarantees that you mentioned - I believe there were two - in the course of the report. I guess my question would be to the Minister at this stage of the game, what would you envision over the next year, two years, three years, the role of MDC to be?

MADAM CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: At this particular stage, I don't know what the role for MDC in terms of loans to business has been perceived. I think MDC will be reviewed and I think there will be discussions with people in the business community, but at this stage it certainly wouldn't be our intention to establish MDC as a loan vehicle to the private sector. That possibility isn't precluded, that possibility still exists, but certainly it is not the intention at this stage for that to happen.

MADAM CHAIRMAN: Mr. Filmon. Mr. Orchard are you still questioning him?

MR. D. ORCHARD: Yes, if you would please.

Well, at this stage, would I take it from the Minister's comments that a review is under way by himself and his colleagues to determine whether business loans will become a part of the MDC operative role in this Government's economic thrust?

HON. W. PARASIUK: Well, I am the Minister responsible and everything that I am responsible for I want to take a look at in terms of what the history has been, and what the present is and what the future may hold. I haven't had the opportunity yet to do that with MDC, I hope to do that over the course of the summer, but as I said I don't have that as a policy that I want to put forward. That doesn't preclude the Government maybe wanting to develop that policy over the course of the next four years. I don't want to make a statement here saying that never under any circumstances will MDC make a loan. At this stage it is not making loans, it is not our intention to make loans in the near future, but that doesn't preclude the possibility existing that it might make loans in the future, but that is not our intention at this stage.

MR. D. ORCHARD: To Mr. Jones, at the present time then, how many active loans are there through MDC?

MR. H. JONES: Twenty-five.

MR. D. ORCHARD: Twenty-five, and what are the total amount of those loans?

MR. H. JONES: Approximately 11 million, Mr. Orchard, \$11,148,392 at the end of fiscal 1981, and there has not been much change since, so it is just over 11 million.

MR. D. ORCHARD: As indicated, Mr. Jones, most of those businesses to whom loans have been made are in satisfactory operating condition, they are doing reasonably well?

MR. H. JONES: That is correct.

MR. D. ORCHARD: Would there be any notable exceptions?

MR. H. JONES: Well, we have two of those loans, Mr. Orchard. One specifically is in some trouble; the other one we set up an allowance for, but the one that is in trouble, frankly, I don't think it would be correct for me to comment on the specifics, but we do have one that has problems.

MR. D. ORCHARD: In terms of Guarantees, how many Guarantees are in place now?

MR. H. JONES: We have a Guarantee outstanding for A. McKenzie Co. Ltd., we still have the guarantee in respect of Flyer's performance bonding requirement of 30 million, which is indicated on page 15.

MR. D. ORCHARD: The McKenzie Guarantee, is for how much again please?

MR. H. JONES: The McKenzie Guarantee in total at the year end was 4.5 million, and there was another million in the subsequent fiscal year, bringing into a total commitment of 5.5 million.

MR. D. ORCHARD: That is all for now, Madam Chairman.

MADAM CHAIRMAN: Mr. Filmon.

MR. G. FILMON: Thank you, Madam Chairperson. The notes of the Financial Statements indicate that the Corporation's investment in William Clare (Manitoba) Ltd. is shown at a nominal value of \$1.00, what was the actual value?

MADAM CHAIRMAN: Are you asking that of Mr. Jones?

MR. G. FILMON: Who ever is capable of answering it.

MADAM CHAIRMAN: Mr. Jones.

MR. H. JONES: Right now, Mr. Filmon, there is no value attached to it at all. We have an allowance set up for the total investment that MDC made.

MR. G. FILMON: The total amount shown in the Wil-

Tuesday, 8 June, 1982

liam Clare Report of 2.49 million, is that the amount that MDC put into it?

MR. H. JONES: That is correct.

MADAM CHAIRMAN: Is that it, Mr. Filmon?

MR. G. FILMON: Thank you, Madam Chairperson.

MADAM CHAIRMAN: Are there any other questions?

MR. W. McKENZIE: Madam Chairperson, has there been any changes in the Board?

MADAM CHAIRMAN: Mr. Jones.

MR. H. JONES: Well, looking at the lists in the 1981 Report, Mr. McKenzie, one by attrition, Mr. Howard Asham, and Mr. John Burns are no longer members of the Board. The remaining names are still there.

MR. W. McKENZIE: I was wondering, on page 13 of the report, you mentioned that 50 percent of the pension disbursements are made to retired employees. What kind of dollars are you speaking of in that figure? Under (d).

MR. H. JONES: Perhaps I could get back to you on that, Mr. McKenzie, I'll ask my Treasurer to get that information.

HON. W. PARASIUK: Just on that, if we don't have it easily available, could we then just mail it to the member in the normal way?

MADAM CHAIRMAN: Mr. Brown.

MR. A. BROWN: Madam Chairperson, I believe that Mr. Jones said that there were 25 loans outstanding. Could he name those loans or could he give us a list of those loans and the amounts of each company?

MADAM CHAIRMAN: Mr. Jones.

MR. H. JONES: I can give you a list of names now, if you wish. They were published in the years past, as you know, when they were approved by MDC, but the list as it stands right now: Ajax Equipment Limited, the current position is \$304,000; Birch Enterprises Limited - 9,000; the Bradley Meats - 156,000; Digest Reporting Services Winnipeg - \$1,400; Dring Canada, Boissevain - 75,000 - I'm rounding the figures out - William and Ann Dunlop of Seven Sisters - 80,000; Friendly Family Farms of Steinbach - 348,000; Robert and Catherine Gebhardt of St. Laurent - 7,500; IXL Industries Limited, Lockport - 1,064,000; Josef Freed Clothing, Winnipeg - 69,000; Kitchen Craft of Canada Limited, Winnipeg - 568,000; Lake Manitoba Narrows Lodge Limited, Oakview - 48,000; the Moosehorn Motor Hotel - 82,000; Morden Community Development Corporation - 11,600; McCain Foods of Portage la Prairie - 6,900,000; Northern Welding Limited in The Pas - 9,700; Paramount Bio-Chemicals Limited of Winnipeg - 375,000; Riding Mountain Holdings, Minnedosa - 220,000; Russell Inns Limited - 142,000; Santa Lucia Pizza of Winnipeg - 36,000; M.D. Sco-

ronsky in Wanless - 19,000; Stern Trucks of Winnipeg - 265,000; The Pas I.R. Corporation in The Pas - 50,400; and Wolverine Lodge - 13,500. That's the lists.

MR. A. BROWN: I wonder, Madam Chairperson, would it be possible for us to get that page zeroxed so that each one of us could have a copy?

MADAM CHAIRMAN: Certainly Mr. Brown, I'll take care of that now. Are there any other questions?

MR. A. BROWN: On these loans, it's my understanding that the payments are coming in as they're supposed to, most of these anyway?

MR. H. JONES: That's correct.

MR. A. BROWN: What interest rate are you charging at the present time on these loans?

MR. H. JONES: Well, I haven't got the details here Mr. Brown. There's a whole range of different rates because these loans are approved over quite a long period.

MR. A. BROWN: These are long term loans; in other words, they don't fluctuate with the daily interest rate in the banks?

MR. H. JONES: That's correct.

MR. A. BROWN: I noticed that you sold the shares in the Tantalum Mining Corporation during the year. Was any money realized on the sale of these shares from the original investment?

MR. H. JONES: I reported fully on this at the Standing Committee last year. If I may ask Mr. Musgrove to look at the details and we'll get back to you in a couple of minutes on that.

MADAM CHAIRMAN: Are there any more questions, Mr. Brown?

MR. A. BROWN: Not at the present time.

MADAM CHAIRMAN: Mr. Filmon.

MR. G. FILMON: Mr. Jones alluded earlier to the fact that there was one of the businesses within the Development Corporation has loans that might be in some difficulty. Is it one of lists of 25 that he's given us?

MR. H. JONES: Yes.

MADAM CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: To the Minister, on the Board membership, when do the terms on the Board expire, for the members that are currently on the Board?

MADAM CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: I don't have that information with me. Mr. Jones, can you tell me when the terms expire for some of these.

MR. H. JONES: January, 1983.

MR. D. ORCHARD: January, 1983. To the Minister, there's no changes contemplated before that term expiry?

HON. W. PARASIUK: There might be, but I haven't made that decision yet.

MR. D. ORCHARD: Now when you say there might be, you might be contemplating changing some of the memberships prior to their January, 1983, term that they were appointed for originally?

HON. W. PARASIUK: I haven't made a decision on that yet. I haven't considered that matter yet. I expect to give consideration to that over the course of the next few months, I don't preclude it. I've made one change already; namely, Mr. Burns, but I really haven't made a decision on that.

MR. D. ORCHARD: Who has replaced Mr. Burns?

HON. W. PARASIUK: No one at this time.

MR. D. ORCHARD: So the Board is operating short two of the complement that is shown on page 5 of the Annual Report?

HON. W. PARASIUK: That's right.

MR. D. ORCHARD: Now, possibly the Minister could share with us some of the reasons he might entertain for replacing members of the Board, should he make that decision?

HON. W. PARASIUK: Well, since the Board members of MDC are also the Board members of CEDF, and since one tries to make the Board representative of the entire province, that may be a consideration, but I'd certainly have to discuss this with the Minister responsible for CEDF, because it's a different Minister - just to get better representation from different parts of the province. I know that in the past certain groups have put forward names. I remember a name from CEDF, who is still on CEDF and on the Board of MDC, a Mr. Bennett. I think he made the suggestion that originally was put forward by Northern Committee of Community Councils. I'm not sure about some of the other names and I have to check through that and that's what I intend to do.

MR. D. ORCHARD: Is it the Minister's intention to continue with the parallel board concept between CEDF and MDC?

HON. W. PARASIUK: Again, I haven't made up my mind. I want to sit down with the Minister responsible for CEDF and discuss that. I think this was possibly done out of convenience and that there were no new loans being made by MDC, but there certainly are a number of loans being made by CEDF. So, I think it's important to ensure that since CEDF is the activist entity that it has the complement of Board members it needs, who are especially knowledgeable of northern and remote situations, while at the same time, it may

be that a different board may be required for the MDC, although to date that hasn't necessarily been the case. Although given the tough economic times that we're in right now, if one or two of the loans are in some difficulty it may require a change in the board memberships between the two of them. As I've said, I haven't made up my mind in that respect yet.

MR. D. ORCHARD: What areas of the province does the Minister not consider to be adequately represented on the present board structure?

HON. W. PARASIUK: I didn't say that I didn't think they were adequately represented; I wanted to review that to satisfy myself, that was in fact the case. I don't know some of the individuals. I hope to be attending one or two of the Board meetings just to get an idea of who's on the Board, what their backgrounds are. I'd like to meet some of these people personally and that will be my intention over the course of the summer.

MR. D. ORCHARD: Well, the Minister in his review of the effectiveness of not only this Board, but also the parallel Board involved with CEDF, might consider that with 25 loans outstanding, one is in some difficulty and possibly another one, 4 percent at most with difficulty ratio shall we call it with the 25 loan portfolios I think that would be, in today's terms with any lending institution, a pretty admirable record and I think speaks well for the way the Board, as presently structured, has operated and has given direction to MDC in its loans affairs. Certainly the Minister has every right to make changes where he deems necessary, but it would seem to me, if he removed some of the current membership on the board, he might be removing some of the expertise that has led MDC to what is I think a relatively good position that they are in right now.

HON. W. PARASIUK: I always take the comments of the member under advisement, and I will certainly take those comments under advisement.

MR. D. ORCHARD: Well, that's much appreciated, the Minister taking my comments under advisement. They are not only my comments, I think they are shared by anybody who from outside has a look at the operations of MDC and has an understanding of what it means in today's financial situation to have 23 out of 25 successful loans. I think that is an enviable business record to be maintained by any organization offering loan funding to a troubled business community nowadays, and I think the board as currently structured has a lot to commend itself to this Minister and to this government.

MADAM CHAIRMAN: Mr. Jones. I believe we have an answer for Mr. Brown now.

MR. H. JONES: Mr. Brown, you asked me a question on the site of the Tantalum shares and I just looked up Hansard for a committee last year to confirm the figures. MDC had acquired 250,000 shares at a cost of \$1.5 million, and they represented 25 percent of the total shares of Tantalum. They were transferred to the province from \$3,261,000 and that amount represent-

Tuesday, 8 June, 1982

ed the amount of the last arms-length offer for the shares. The net profit to MDC on that transaction was \$1,780,000.00.

MADAM CHAIRMAN: Mr. Brown.

MR. A. BROWN: Very good. I have one further question on Page 5, I guess it is or whatever. Loans Receivable, Less Allowance for Doubtful Accounts, could you give me the figure that you have down for Doubtful Accounts? I don't want them for each individual company, just the total figure.

MR. H. JONES: Madam Chairperson, the total - \$19,852,900.00. Let me just clarify that, Mr. Brown, \$452,800 is set up as an allowance for the regular loans. The balance of course is the Flyer allowances which was the then deficit in the Flyer Industries' account, so \$452,000 has been set up as an allowance for doubtful accounts in the regular loan portfolio.

MADAM CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Mr. Jones, what is the current staff complement at MDC?

MADAM CHAIRMAN: Mr. Jones.

MR. H. JONES: In effect, we have - how can I explain this? The staff at CEDF do the work for CEDF monitoring, loan approvals and also monitor MDC. We have, in effect, no staff in MDC per se. The numbers - I have to refresh my memory, 8 or 9 professional people in CEDF, so they look after both funds.

MR. D. ORCHARD: Mr. Jones mentioned that currently there is some legal involvement in winding down Saunders. How long would Mr. Jones speculate that might take to finally achieve the last wind down of Saunders?

MR. H. JONES: Well, I have been in touch with the Receiver almost on a weekly basis, Mr. Orchard. The problem here is that the legal proceedings in question are not in Manitoba, they are in Ontario and that has caused a further delay. The last conversation I had with the Receiver indicated that probably in about four months we should clear this thing. Now we have been hearing that for a long time, but I suspect this is correct.

MR. D. ORCHARD: Now, can Mr. Saunders indicate the nature of the legal involvement emanating from Ontario?

MR. H. JONES: I am sorry, Madam Chairman, I didn't hear the question.

MADAM CHAIRMAN: Mr. Minister, on a point of order.

HON. W. PARASIUK: Could I just interrupt on a point of order on this? The material that was handed out has some information there that I think is confidential, so I would ask the members if they would just hand that back to us, and I will ask the clerk if she would go pick

them up. All the items there have been read into the record. They will be part of Hansard, so I think you will have a record, but if you look at it you will see that there is some material there that I think should be kept confidential to MDC, so I would ask the clerk to pick these items up right now. Thank you.

MADAM CHAIRMAN: Mr. Orchard, on the point of order, are you continuing your questioning?

MR. D. ORCHARD: Yes, what is the nature of the legal claim, I assume from Ontario as it applies to Saunders Aircraft?

MADAM CHAIRMAN: Mr. Jones.

MR. H. JONES: Mr. Orchard, it is an extremely complex claim, with about 15 different sections in it, and frankly some of it is subject of such contention that with your permission, I prefer not to go into detail.

MR. D. ORCHARD: Then, could you indicate the value of the claim?

MR. H. JONES: The claim is for just over \$600,000.00.

MR. D. ORCHARD: If this legal action is successful, that would represent a further pay out by MDC of \$600,000 if this claim was deemed successful. Would that be correct?

MR. H. JONES: No, no. The Receiver is claiming 600, so the receivership would net that much more.

MADAM CHAIRMAN: Another question?

MR. D. ORCHARD: Factoring out the claim that you hoped to recover \$600,000 on, is there a current update on the total loss for Saunders that you could share with the Committee today?

MR. H. JONES: If you will give me just a couple of minutes, I will get you the figure Mr. Orchard.

MR. D. ORCHARD: While Mr. Jones is looking that up, possibly he could also provide information as to the status of MDC funding or maybe it is CEDF, I am not certain of this, of outstanding loan to The Pas Band Trailer Court? That has been a subject of some discussion over the years.

MR. H. JONES: When I was reading the list of names out, Mr. Orchard, The Pas I.R. Corporation is a legal entity for Timberland Trailer Court; that loan has been written down to just over \$50,000 and is being paid on a regular basis.

MR. D. ORCHARD: Could you refresh my memory as to what the original loan value was prior to writing down?

MR. H. JONES: 220,000.

MR. D. ORCHARD: A question to the Minister on this one. Further to Mr. Jones, the \$50,000 is being collected and you don't anticipate any problem with the

collection of the \$50,000.00?

MR. H. JONES: That is correct.

MR. D. ORCHARD: To the Minister, is this government contemplating any efforts, for instance, to reimburse the School Division of The Pas for a conflict that has been ongoing for some time of no school taxes basically being paid by residents of the Timberline Trailer Court? Has there been any action by this government to resolve that?

HON. W. PARASIUK: I have not heard of any.

MR. D. ORCHARD: So that unless the Minister could provide information at a later date, it would be fair to assume that there's no attempt to resolve that problem by the government.

HON. W. PARASIUK: Well, no, I can't say that, that's surely within the area of responsibility of the Minister of Education and possibly the Minister of Municipal Affairs with respect to the assessment taxation. The MDC made a loan to an entity and there was a conflict over taxes at the local level. I think that's something for the government and through that different Minister to the other Minister's area of responsibility. I certainly can't say whether in fact there's been any representation made to the Minister of Education or not.

MR. D. ORCHARD: I wonder if the Minister might do a quick check of that and provide that information for me at a later date.

HON. W. PARASIUK: Sure, I will ask the Minister of Education to provide that information to the member.

MR. D. ORCHARD: Thank you. That's all the questions I have right now Madam Chairman.

MADAM CHAIRMAN: Are there any other questions?
Mr. McKenzie.

MR. W. McKENZIE: Madam Chairperson, just for the record and to refresh my memory, what is the average interest rate on those loans? Can you give me a low and a high, 5 percent is it, 6?

MR. H. JONES: No, we don't have anything that low. From 9 to 11.75, that seems to be the range.

MR. W. McKENZIE: That's all, thank you.

MADAM CHAIRMAN: Is there any further questioning?
Mr. Jones.

MR. H. JONES: Mr. Orchard, you raised a question on Saunders Aircraft. If I could comment, I think we did last year too - in terms of the receivership realization to date, 870,000, and I mentioned there was a claim. The original loan situation with Saunders under Part 1 is 21.6 million; under Part 2 is 17.9 million, for a total of 39.5.

MR. D. ORCHARD: If you were entirely successful on the \$600,000 court action, it would reduce it to somewhere under \$39 million then?

MR. H. JONES: That's correct.

MR. D. ORCHARD: Thank you, Madam Chairman.

HON. W. PARASIUK: Could we then proceed? If there are no further questions, could we pass the MDC Report, the William Clare Report, then we could move on to the Flyer Report? Is that agreeable?

MR. D. ORCHARD: Just one other question to the Minister, I want to make sure that I have a correct understanding. The Minister is hoping to undertake a review of, say, two segments of the operation of MDC over the next several months. First off, the appropriateness of the membership of the present board and its structure; secondly, the review of the role of the Manitoba Development Corporation as to how it might be structured and activated to provide business assistance or whatever as the government sees fit over the next couple of years. That review - the Minister hopes to undertake over the next several months?

HON. W. PARASIUK: Yes, I said that as a normal function of being the Minister responsible that I should do that with respect to every entity that I'm responsible for. I'm doing that as a normal course of action.

MR. D. ORCHARD: Now in trying to establish a potential role for MDC, I noticed from memory, on the 25 loans I think the maximum loan was something just slightly over \$1 million - without having that sheet in front of me. Would that possibly be a guideline for the Minister in that if MDC was to be reactivated it would be in the small to medium-size business range?

HON. W. PARASIUK: I think the member is reading far too much into my comments. I haven't said anything that I was going to activate MDC or anything like that. I said I was going to take a look at MDC's past functions, its present functions and see whether in fact it has a role in the future. So I think it's premature to speculate about hypothetical cases at this particular time.

MR. D. ORCHARD: Well, then I take it the Minister would prefer we ask these questions about a year from now.

HON. W. PARASIUK: If there are changes made, sure, or if there's a policy announcement made, but you know one could debate hypothetical policies ad infinitum. If the member wishes to do so, fine. I'd be speaking off the top of my head at this particular station. I'd prefer not to because, again, the question at this stage is hypothetical.

MR. D. ORCHARD: Just one final question to the Minister. In general, would he consider the current status of the MDC and its loan portfolio, for instance, Flyer to be a satisfactory stage for those loans to be at the present time?

Tuesday, 8 June, 1982

HON. W. PARASIUK: I don't know if there have been any loans made for about a three or four-year period, so that what you have - the loans that remain are what I would call the mature loans. That happens with any organization. If indeed MDC had been making new loans over the course of the last three or four years, especially to newer enterprises, I'm certain that the degree of difficulty or the percentage of difficulty would be greater. But at the same time it hasn't carried that out and that means it has a more mature loan portfolio. More mature companies are more easily able to withstand diverse conditions or difficult conditions in the economic climate than our new companies.

At the same time there has been concern in the past about the extent to which there has been the availability of loan capital in Manitoba to attract industry. There are different methods that could be used, one could give a direct grant. The government could give a direct grant to a company. The company may indeed be a very successful company, but it requests a grant from the government; that's one way of approaching it. That could happen. It may have happened in the past, I'm not too sure, but the government always is in the position of wanting to see whether in fact it could attract or have more industry or businesses develop within its jurisdiction. But I, at this stage, have no pressing desire as the Minister responsible for MDC, especially given the very very high interest rates, the unpredictability of interest rates, to launch MDC on to the course of making a number of loans.

MR. D. ORCHARD: That's all the questions I have for now.

HON. W. PARASIUK: Should we then pass? Do you want to deal with it page by page or should we pass the MDC Report as reported? MDC Report—pass; William Clare Report—pass.

FLYER INDUSTRIES LIMITED

HON. W. PARASIUK: We can go now to Flyer, questions relating to Flyer. Is there an introductory statement with respect to Flyer? I think you have introduced it and if there are questions, you have the report before you. We are in a position now to deal with questions pertaining to Flyer.

MADAM CHAIRMAN: Do you want to introduce Mr. McKay?

HON. W. PARASIUK: Oh, well, Mr. McKay is here. Mr. McKay, he's President and he's here beside Mr. Jones. I believe Mr. Orchard has a question.

MADAM CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Thank you. The Flyer has had a couple of quite successful years in '80 and '81. Would Mr. McKay care to make a guesstimate as to whether we can hope this continues in '82?

MADAM CHAIRMAN: Mr. McKay.

MR. D. MCKAY: I've already mentioned in the Annual Report that we entered this year was probably a

record order bank. At this stage I would feel that with a degree of cautious optimism that we will continue to be successful through this year.

MR. D. ORCHARD: How many buses are on schedule for production in this current year?

MR. D. MCKAY: Just over 400.

MR. D. ORCHARD: Does that represent the total production scheduling that you referred to just a couple of minutes ago, or are there orders for production say in 1983 that Flyer already has successfully received?

MR. D. MCKAY: At this juncture, we have additional units for early 1983, a very limited number. We are at present being considered a successful bidder on a couple of very major programs which would then possibly even necessitate consideration for changing our manufacturing schedule to implement some of the terms of those new contracts; so at this stage I really couldn't comment on any other orders that we do have. I can comment on the fact that at this present moment we are either bidding in tenders or have tenders to bid for some 700 vehicles.

MR. D. ORCHARD: If you were successful in any or all of those, would that take Flyer's production schedule above that say 350-400 annual production level?

MR. D. MCKAY: Not necessarily. It depends on the delivery schedule that the customer wants. If to indeed get the award required a delivery time to the successful bidder, it would have to be considered. At this stage, I prefer not to contemplate a change in the manufacturing schedule. This is a very comfortable one for Flyer and I believe we need a few more years to mature before we contemplate an increase in manufacturing schedules.

MR. D. ORCHARD: That of course was the basis of my questioning. The 350-400 units per year certainly seems, as indicated in 1980 and '81, to be a good comfortable successful production level. If I can paraphrase Mr. McKay's words, that's the kind of scheduling you would like to adhere to over the next year at least to assure that you've got the bugs out of all the operations before contemplating any leap to 600 or more buses per year.

MR. D. MCKAY: It certainly would be our preference on the part of Flyer management. Again, I have to indicate that if indeed we were successful on a major bid award that I would have difficulty trying to turn it down on the basis of inflexibility of manufacturing schedules.

MR. D. ORCHARD: Has Flyer paid any penalties on any of the production orders over the last several months?

MR. MCKAY: No, we have not.

MR. D. ORCHARD: The "Buy America" policy was one that was either having or was feared to be having some effect on Flyer's ability to bid for orders in the

United States and some of the major cities in the United States, is that "Buy America" policy having any effect or an adverse effect on Flyer's bidding potential?

MR. D. MCKAY: The Buy America Act today is as active, if not more active, as it ever was and certainly in Flyer's history. We find ourselves in a unique position despite that being considered for more bids by U.S. customers than we ever have been in the past. The uncertainty, I would have to say going forward, is related to an overall Canadian-U.S. relationship in trade generally that has recently brought more or less negative impacts - I can't put a tangible negative impact on a certain specific bid - but it has caused us some concern. This is requiring us to reevaluate how to meet that type of regulation and that type of impact.

MR. D. ORCHARD: Is my memory correct that Flyer retained legal counsel in Washington to be on top of the "Buy America" policy and its impact on the company?

MR. D. MCKAY: That's correct.

MR. D. ORCHARD: Is that legal counsel still working on behalf of Flyer?

MR. D. MCKAY: Yes, they're still associated. I would have to say that we have had more direct contact ourselves with the regulatory bodies both in Ottawa and in Washington on a more direct basis, but supported by that legal counsel.

MR. D. ORCHARD: I'm not sure whether it was a year ago or more than a year ago, there was some move considered to just across the border in North Dakota to overcome some of the possible adverse effects of the "Buy America" Program. Has there been any furtherance of that decision?

MR. D. MCKAY: No. Since the time I've been on the Board of Flyer, we have not had any consideration of that. I would have to say that if we were to consider it, I doubt whether it would be just south of the border. We'd have to look at all factors, including freight of our subcomponents and where the market is, etc., and would not necessarily indicate that it would be in the best interest to in fact even look at that. We are still of the posture that we will do everything possible to avoid that. Basically, our shareholders are the good people of Manitoba and this is where we'd like to keep all the business.

MR. D. ORCHARD: Recently Bombardier was successful in a pretty substantial, I guess, subway, - I don't know what they call it in New York - but subway car order and that involved - I guess the clincher on the deal was not only the quality of the product, etc., but it was I think 9.5 percent financing from the - is it the Canadian Development Corporation or Export Development Corporation? —(Interjection)— EDC. Does Flyer have any ability to call upon EDC to assist in say some of the American Ministers?

MADAM CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: I'll take the first one on this in that the Minister of Economic Development and myself had a meeting with Mr. Lumley. We've discussed this matter with him. It might have been raised in the past, I'm probably sure it was. I wanted to take this opportunity to correct perhaps a misrepresentation that I might have made before to the Member for Sturgeon Creek when he asked me whether in fact Crown Investments had an export division and I had said, no. At that stage, we were seconding for a period of time a Mr. Ian Blicq from the Department of Economic Development, who is on an assignment to try and determine the best way possible to ensure that we do get federal support to the fullest extent possible, especially Export Development Corporation financing, and this is not an export division or anything like that. It's just that we want to make sure that we get the fullest possible contributions from the Federal Government with respect to our activities here in Manitoba and that's what he is pursuing and I know that there have been meetings between Export Development Corporation staff and management of Flyer. I know that Mr. Lumley himself, I think, has had meetings, so that we're hopeful that our export potential will in fact be increased by having in a sense subsidized interest rates through the EDC. It's certainly clinched the Bombardier deal and we feel that type of special federal effort with respect to exports should in fact extend out west to Flyer Industries as well.

MR. D. ORCHARD: Do I understand that to date, even with the "Buy American" program in place, that Flyer has been successful in tendering certain bus orders in the United States and that's without having to bring in any preferred financing rates or anything else; it's strictly a sales effort on the basis of the quality of the bus and the delivered price to the customer?

MR. D. MCKAY: Yes, you are correct in that.

MR. D. ORCHARD: The reason I bring up this EDC, it looks like a lead pipe cinch if we could get some dollars to increase our production out of there, but it seems to me that there may be some pitfalls in all of that wonderful help from the Federal Government, because if the course in the United States follows a pattern that may happen, and it is only speculative at this time, but apparently there is — I don't understand the legal structure under which they operate, but I will try to put it in layman's terms - if a company from outside of the U.S. is successful in a bid, the competition against a U.S. manufacturer, as was the case of Bombardier and would be the case for instance with Flyer, and that order - the Canadian manufacturer, Flyer, in this instance - were successful because of a preferred interest rate offered by the government of the exporting nation or Canada, that triggers a formal complaint response by the U.S. manufacturer, wherein Congress - I believe it's Congress - could then set an arbitrary tariff barrier to offset this preferential interest rate. If Flyer is successful now in bidding, maybe having EDC come in as part of a preferred financing package may jaundice some of your current good relations in the U.S. tendering market and may in fact not assist you in furthering the production of buses in Manitoba for sale in the United States.

The comment I make . . .

MADAM CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: I think that one has to be very wary of the point or conversant of the point that the member is raising, and you have to be judicious in your judgments on that. We, in fact, have been talking to the Federal Government with particular regard to the offshore market. As a number of countries find it more difficult to provide transportation just through private automobiles, they have to look at public transportation systems and we may have some potential there on the offshore market, but again when you talk about the offshore market you are talking about, I think a - I hate to use the word competitive system, because basically it's a competitive system of subsidies with respect to exporting there - I think the orientation has been more to the offshore market and that we have been pursuing the good relations that we have with the people we have today; although the "Buy America" policy is one difficulty that we have to be aware of, because it could have an impact on us in the future, an increasing impact especially as recession deepens.

The second aspect is the concern over the extent to which there might be continued cutbacks by the American Federal Government to cities for urban transportation purposes, and again that could dry up some of the funding for urban transportation. That could have a negative impact on our future markets, but those are things that I am quite certain the management is aware of.

MR. D. ORCHARD: I don't know whether the Minister can answer this question. The one thing that came to my mind with that Bombardier thing, there was the potential of the U.S. imposing an arbitrary import tariff. Does the Minister know who would pay that? Is it the manufacturer, Bombardier, or would it be the Federal Government themselves?

HON. W. PARASIUK: No, from what I have been reading on the matter, I think there are a couple of American firms that have raised concerns and I think they have some valid concerns in that sense. I think the world is developing into a situation where there is one set of posted prices and then there is the real prices, which entail 7 percent or 8 percent financing which is massively subsidized; and if we look at the extent to which the Candu reactors are being marketed across the world, one of the attractive features from the buyer's point of view is the fact that the Canadian people are going to subsidize that sale pretty significantly, so that one has to be wary of that and I am not sure whether in fact that will come to the fore, because at the same time I don't know if we in Canada have a "Buy Canadian" policy with respect to many products that are produced in the United States.

I would think that the balance of trade between Canada and the United States is very much weighted in the U.S.'s favour, so that in those few instances where Canada maybe may make some inroads into the United States market, there may be attempts on the part of some American politicians to start erecting barriers to, say, Flyer just competitively bidding on a

contract. We have to be cognizant of that obviously, we have to be careful about that.

At the same time, I would hope that at the diplomatic and business levels, people have an understanding that the balance is very much weighted in the United States' favour in terms of sale of manufactured goods to Canada, but certainly we would want to be very wary of jeopardizing any contracts that we might have in the United States, not only today but in the future; but the two major features that we have to deal with are the "Buy America" clause, and the cutbacks at the American Federal Government level to cities for purposes of urban transportation.

MR. D. ORCHARD: I realize the Minister probably doesn't have the answer, but in the discussions with EDC, I think it would be pretty important for us to know whether a tariff penalty is imposed by the customer's government who pays that - whether it would be the Federal Government through EDC or whether it would have to come back to the manufacturer because if it comes back to the manufacturer it isn't any help at all. It would be a negative help to a manufacturer who is bidding probably pretty close to the line in all these estimates.

I have no more questions for the time being; and I'll come back in a moment.

MADAM CHAIRMAN: Mr. McKenzie. No, it's Mr. Johnston. Mr. McKenzie was on the list.

MR. F. JOHNSTON: Yes. On the page of the Flyer report - "What we do, how we've grown, what we plan," you outline that we are probably one of the leaders in the trackless trolley buses and nearly half of the new coaches manufactured by Flyer will be trolley. Then it refers to advanced manufacturing methodology that you are working on at the present time and then towards the end in the last paragraph you mention new additions to your product line being considered, articulated coaches and "Knock Down" units for export. The statement that 400 buses a year is a comfortable number for Flyer - and I was aware of that - I would like to ask Mr. McKay, what is being done to set up the R&D, Research and Development for Flyer Industries to keep itself abreast or be ready to go into the changing transportation market or people moving transportation market that looks fairly inevitable in the future for many energy reasons, etc.

I know that there will be a market for the type of bus that Flyer is making for some time, but I can't see the plant just staying at the preferred capacity of 400 forever. If it's planning to go offshore, I think many of us here have seen buses offshore in different countries. They are all - some need heat, some don't need heat, some need different preferential materials put in them, etc. So to boil it down, where are we going with the Research and Development in Flyer that will be the basis of maintaining it as an industry for a long term in the Province of Manitoba because other people, the Europeans, the Americans and the offshore people have extensive research and development in electrical or in all phases of the transportation industry?

MADAM CHAIRMAN: Mr. McKay.

MR. D. MCKAY: Well, in answer to your question, we are presently developing our three to five-year strategic plan and how to actually restructure ourselves to do that. The first part of that has been to do extensive market research on what our customers need. In the past I believe, and certainly in no way castigating, at times people have gone out on a pride of excellence of their own sort of knowledge and not necessarily has the customer really wanted that. When we refer to articulated vehicles and various other vehicles such as we have in the report, these are perceived customer needs going through the late '80s and into the '90s. To that, we have been approached by several people, including our own Energy and Mines and various other resource areas in the Province of Manitoba as well as across Canada as to the utilization of various energy efficient ideas. Again, some of these are 15 years away rather than some being 5 years away.

These are presently being analyzed and we are working very closely, first with electrical propulsion unit development people - we don't have those resources ourselves - we're working with major U.S. corporations that are interested in being able to apply a different type of energy storage systems to powering motor vehicles and through those joint ventures we will go into some development, depending again on the customer needs.

Today, to put that in some focus, there are only nine cities in North America that now have electric trolley coaches. The life span of an electric trolley coach is 20 to 30 years; the life span of the diesel bus is 10 to 15 years. The capital cost is quite different; but the impact of energy today in terms of fossil fuels is such that there is considerable interest in trolley coach technology to what there used to be in recent years. That interest, however, is again limited by the aesthetics and the cosmetics of overheads, etc., the cities will require. So the type of thing that the customer really needs is a bimobile type of vehicle which allows them to utilize the power on a localized basis and then have off-a-line capability which would substitute for present diesel technology. There are at least three very interesting aspects that have been underdeveloped for some time that are near maturing and those are ones that we're working very actively on. Again, this is not being defined and won't be defined until sometime later this year to our Board and for their consideration, because it's very well for us to define what a customer needs and define the type of product that we see going into the late '80s and '90s for long-term stability of Flyer, but we'll have to quantify that with what type of capital requirements and what type of financing will be available and we're not at that point of time yet. I don't know whether I've answered it fully.

MR. J. JOHNSTON: Well, I appreciate the answer and I think Mr. McKay and the Board are recognizing a concern of mine that our Research and Development is something that has to be kept up with in this particular industry.

The Minister mentioned that Mr. Blicq had been taken into Crown Investments and I'm sure he'll be working with the Federal Government in different areas, but has there been any approach to Research and Development funds from the Federal Government for this particular industry now?

I might add; I think Flyer is doing great without too much fooling around from the Feds, which can at times be disastrous the way they are at the present time, but there are lots of other companies that are in Canada that are getting Research and Development funds, and in this industry it's very important. Has there been any approach in that way? Maybe the Minister can answer that.

MADAM CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: That would certainly be one of our intentions. Mr. Blicq has only come on recently on secondment, but I can appreciate concerns about federal involvement in a manner that would create difficulties. At the same time, if there are other companies getting R&D money or getting Export Development interest subsidies, then we believe that firms in Manitoba should get their fair share of that as well and certainly when it comes to R&D that will be an area for us to pursue.

I think that if one looked at many of the manufacturing firms in Eastern Canada you'd find that their R&D component has been very very heavily subsidized by the Federal Government and when one talks about the Dash Aircraft, well there's been a very massive federal input there that hasn't been received by Western firms all the time and I think it's important for us to make sure that if we are going to have more industry in Western Canada that there be a better balance in that respect.

MR. F. JOHNSTON: Just one more question then. I was very pleased to see that Flyer was able to probably be responsible for the expansion of an aluminum window company in the Province of Manitoba because I believe you're purchasing locally at the present time the windows for the buses, if I'm not mistaken. Is there a program within Flyer to try and find more products locally as much as possible?

MADAM CHAIRMAN: Mr. McKay.

MR. MCKAY: Yes, we are very pleased to be part of the success story; I believe it is Storm King. They were successful as a supplier to ourselves and our customer has nothing but the highest regard for their quality. We intend to continue doing business with that specific firm and others. We have been part of the various exhibits locally and seeking enquiries from local suppliers. Good local suppliers are probably one of the keys to our ongoing competitive success in the United States, so we are using them as much as we possibly can.

MR. F. JOHNSTON: Just finally, has the Winnipeg Technology Centre been of any help to Flyer for testing or anything of that nature?

MR. D. MCKAY: Yes, we use the Technology Centre; we use the University of Manitoba. We stress analysis testing with the Engineering Department and we use the Technology Centre for various types of physical testing, etc., that we need in terms of materials and various other aspects of our production.

MR. F. JOHNSTON: Thank you, Madam Chairperson.

MADAM CHAIRMAN: Mr. McKenzie, did you have a question?

MR. W. McKENZIE: Thank you, Madam Chairpersons. I wonder if I could ask Mr. McKay, what's the price tag on a 901 diesel and electric laid out of the door of the shop?

MR. D. McKAY: Well, again I have to quantify that with whether it has air-conditioning and a few other things, but if you take the standard D901 without air and without wheelchair lifts, it would be in the order of \$130,000 to \$140,000 depending on the type of windows, etc., that went on that. In terms of the trolley coach, it would be in the order of \$210,000 to \$220,000, again depending on the options.

MR. W. McKENZIE: I'd ask Mr. McKay if they've taken a look at what this payroll tax that the government has levied is going to add to the cost of those buses?

MADAM CHAIRMAN: Who wants that one? Mr. McKay.

MR. W. McKENZIE: They can take a look.

MR. D. McKAY: We've taken a look. We have an annual payroll of \$9 million and taking that factor, it's quite easy to factor what the cost will be.

MR. W. McKENZIE: Thank you, could Mr. McKay advise if the board made a decision? Are you going to absorb those extra costs or are you going to add it on to the cost of the product at the end of the line?

MR. D. McKAY: I would say that'll depend on the exact tender. We would put that into our costs and attempt then to put a margin on those costs which would in fact be passed on to the customer.

MR. W. McKENZIE: . . . have any bearing on your competitors in the marketplace? It's a pretty fine line.

MR. D. McKAY: At this stage I would say the greatest variation is exchange, probably far more than that would be in itself. It certainly is an added cost, but however that in itself I don't feel would affect our basic competitive position.

MR. W. McKENZIE: Thank you.

MADAM CHAIRMAN: Mr. Brown.

MR. A. BROWN: On Page 9, on the Balance Sheet, Accounts receivable of \$5,470,000; and underneath that you have Contract progress payments of \$7,693,000.00. Now obviously you're getting some progress payments as your contracts are progressing. The \$5,470,000, isn't that a little high as far as Accounts receivable is concerned?

MR. D. McKAY: No, we didn't consider it unduly high in terms of the activity level in 1981 in comparison to 1980. It's quite commendable. The actual progress

payments were related to a specific contract which has progress payments. They are not in any relation to the receivables as such.

MR. A. BROWN: Is this the usual type of contract where you do have progress payments? I suppose that if you do receive a fairly large contract you would be receiving these payments. Do you receive these payments as you deliver the buses?

MR. D. McKAY: I would prefer that all of them had the type of progress payments such as this contract. Normally, however, under U.S. sales particularly, it's mandated by the Federal Funding Agency which indicates that we get paid 21 days after the date of acceptance by the customer. That's mandated by U.S. federal regulations, so in most cases that's the way that we're being paid.

MR. A. BROWN: Further down, in Liabilities, you have Provision for warranty claims. That has gone up considerably from 1980. I suppose the reason for that, of course, would be because you're manufacturing more buses. What percentage of your total business do you put towards warranty?

MR. D. McKAY: Well, it varies again with the type of unit that we sell. A trolley coach would carry a different warranty appropriation than a very simplified diesel bus. We place a warranty reserve in each contract then on that basis. The provision that we've made includes the results of a very aggressive field service program that we instituted somewhere over a year or so ago in which we felt that we should provide for some of the past design defects that conceivably hadn't been provided for, so this is an area of catchup.

In answer to your question we would, say on a normal diesel bus, put about \$1,500 a vehicle aside for normal warranty provisions; for a trolley coach, in the order of \$2,000, which would be on a trolley coach of \$200-and-some-odd thousand. That would be the percentage.

MR. A. BROWN: Have you had the substantial number of warranty claims in the last while?

MR. D. McKAY: We've had no abnormal ones. I guess we have a renewed dedication and I think any future programs are dependent upon our customers perceiving us as an excellent supplier. In the past we have not always made as concerted an effort to meet our requirements of customer service. Possibly through that aggressive program we have found areas where we have, in fact, provided more provisions to meet that than we would have done in the past. I think this is part of a total sales and marketing program that has to be done.

MR. A. BROWN: Madam Chairperson, I have never been down to Flyer Industries, and I believe there is a number of other MLAs who have never been down to Flyer Industries. I wonder if we could somehow or other get an invitation to come and visit them sometime.

HON. W. PARASIUK: Sure, I'll answer that. I've already said that it would be my hope to enable the members

who wish to go to see the Manfor facility. The point made by the member is well taken and certainly would be my hope that we can do that sooner rather than later. I think the Manfor one might take a bit more time, but certainly I would like to try and arrange something over the course of —(Interjection)— yes, do you want a trolley bus?

MADAM CHAIRMAN: Did you want to add to that or was it fine? —(Interjection)— Okay.

MADAM CHAIRMAN: Mr. Manness.

MR. C. MANNESS: Thank you, Madam Chairman. I'd to ask a few questions if I could about the production line. You were saying the optimum level of some 400 buses, as you have produced over the last two years - no doubt, you have in-house determined what your maximum output could be, given your existing plant. If you have that number, could you give it to us?

MADAM CHAIRMAN: Mr. McKay.

MR. D. MCKAY: Well, first, although we say optimum is 400 buses, you should be aware that in 1980 we've actually produced about 330; in 1981, in the order of 380. These are basically with the same manpower but basically increasing efficiency and productivity of the line.

The second part of your question has to do with how many. We are working a single shift and conceivably then it would be quite simple to work two shifts. It sounds very simple; unfortunately, in the bus business I think we tend to over simplify by saying two a day, going to three a day, but in effect you're increasing your business overnight by 50 percent by so doing. The logistics of that are what really is a difficulty.

We have a components plant locally in Fort Garry which would not have in itself the capability to support us in the parts that we now have to three and four a day, and they would have to be out sourced. In terms of our assembly plant, we feel probably we would have capacity with some nominal capital expenditures for tooling, fixtures and certain other employee requirements that would give us possibly as high as 700 a year. That would be something that would be quite a step for us to take, and I would say would require intensive study in terms of what are the overall capital requirements, the out sourcing of parts that we now make for ourselves and what would be the best way to do exactly that. But I would have to say this is one thing that has always bothered me personally. The requirement of The "Buy America" Act is, in fact, final assembly in the United States in order to become a domestic producer; yet here in Manitoba we have an assembly plant that I feel has a capability in-house of doing probably 750 vehicles. It's a real conundrum to even contemplate that. If it was the reverse and we were being asked to put components in the United States and final assembly here, I'd be much happier.

MR. C. MANNESS: Thank you for that answer; obviously, you've done some thinking. You know where the constraints for the bottlenecks are that would preclude you from jumping immediately to that

number given some satisfactory market conditions.

The breakdown of the existing sales, the 330 or the 380, in rough terms, how many of those buses have been sold domestically, and how many have gone export, and of those export how many have gone to the United States?

MR. D. MCKAY: Well in 1981, out of 380, somewhere in the order of 250, 275 would have been U.S. sales. The only major order that we had, actually I could go back to the pictures that we put in on this page of all of our customers, as you will see there is only one Canadian customer in that specific time frame and that was Toronto, and that was 107 vehicles. So, again I stand corrected.

MR. C. MANNESS: The main reason, can you give it to me, as to why we are so successful in the States? Is it a combination of quality and the fact that the exchange value is in our favour, or in fact is it strictly exchange value? I would like to try and gain a feeling for that if I could, from your viewpoint.

MR. D. MCKAY: Well, you have mentioned a couple of factors, and there is many, many other factors. The total Canadian market is only 700 vehicles average a year. If we were to depend on that Canadian market entirely it would be very difficult for us to do. In addition, despite the best judgments, Quebec accounts for possibly one-third of that market, and provisions that they have part of their purchasing procurement policy is that 40 percent content should be in Quebec. This precludes us from participation really in Quebec as such.

In addition, our major competitor is located in Quebec, and this has not been entirely beneficial going further east in terms of a competitive situation. Then if you further analyze that market, over 150 of those are of vehicles that we don't produce, in terms of smaller vehicles, special purpose vehicles that we are not presently tooled up to do. So, our whole success has to be basically in the U.S. market, and that is where we have been primarily successful. Specifically in the western half of that U.S. market was where we started and where we really have had the greatest success. It is only recently that we have expanded in the eastern United States.

Now addressing the United States market, by legislation they were being forced or the properties were being forced to accept a bus that they really didn't want. It was called an advanced design bus, it was actually cosmetically very, very preferable, but higher energy or less energy efficient, and it also had tremendous problems with it in terms of service. This made the properties look towards more reliable vehicles and again Flyer, who had been building vehicles for some years, filled that need. To do that, of course, we had to adapt our bus to air conditioning and to wheelchair lifts and various other items, and having so done, we met with some degree of - well, basically the bus is built, and is, because of our geographical location and a lot of other factors, very, very competitive in the marketplace, and is now received as a very reliable bus for that marketplace.

MR. C. MANNESS: Thank you for that answer. You

know, I am glad to hear that there are market factors certainly in some area the challenges of which we have been able to meet, and therefore allow our local production to find their way. Also, you have given indication why those same factors in a Canadian sense preclude us from, in fact entering into some Canadian markets.

I would like to get a better feel for this exchange value. I am wondering if in fact we had an 85-cent Canadian dollar over the last year, whether in fact all the good reasons that you have given us for why we are able to attain this U.S. market, whether in fact they would have been negated by an 85-cent Canadian dollar, or even a 90-cent Canadian dollar. I guess I am trying to see how vulnerable we are to an exchange rate which is in our favour right at this time.

MR. D. McKAY: The exchange rate is extremely critical, I won't say that in any other way. It is most critical because of the provision under The Buy America Act, that I have to sell a bus ten percent below a domestic producer. This is why we've been very preoccupied directly in Washington and in Ottawa to find a way to get greater waivers or greater exemptions under The Buy America Act before the exchange rate would change significantly upwards.

Again, this is nothing that I can control, or any of us can really control, but it is of concern. We are very competitive despite the fact I sell ten percent below anybody in the United States, but again that is to a certain degree dependant upon the exchange rate. I have in the past indicated, and it changes, that I would think it contributes today, say at an 85-cent dollar, to about 6 percent of the 10 percent requirement. The other part of it is basically we still have a competitive edge from every other resource that we use. If you were to believe that the Canadian dollar would go back to 95 cents, we would have a difficult time meeting the 10 percent regulatory tariff, if you want to put it that way under The Buy America Act.

MR. C. MANNES: Well, of course we are all supporters and opponents to exchange rates going every which direction depending what hat we wear. I can tell you as a farmer and somebody that's importing a combine that now costs 125,000, I look at it one way, and as an exporter of wheat, of course, I gain maybe the same benefit as you do when it is devalued. But, obviously in today's consideration, the exchange rates in fact are dropping down and they are down again today, and some people say they are headed, and some people are hoping they are headed for 75 cents.

Will this not cause your product to be in great demand in the sense that if you use the same margin to price or to tender it into the U.S. market and will you not then be faced with some of management decisions as to how to handle that increased demand for your product?

MR. D. McKAY: I have to think about that one. The problem that we have from the date that we tender a particular specification to the time when we actually build it, can in fact be two years. So to take the risk of trying to say today tender a specific project on the basis of a 75-cent dollar for instance, we will use that

as an example, without tremendous protection in terms of futures, and knowing what is going to happen two years from now, I think would be not in the best interests of our corporation, so we don't do it specifically the way you describe.

Secondly, our competitors in the United States, when we originally got into this business three or four years ago, there was probably two or three. There are now nine in terms of that in the United States market, and while we conceivably bid a project in cognizant of a ten percent below, they have in fact bid the project, knowing they could demand 10 percent higher. When the market drops, then they in fact have found a very energetic pricing formula from somewhere that makes it even more competitive today than it was.

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

I realize that the comments I made would appear simplistic, but that leads me then to ask the question, because in fact there is a two year lag as you indicate, as far as delivery versus tendering, does your company at all use mechanisms available to itself by way of exchange futures and hedging extremes.

MADAM CHAIRMAN: Mr. McKay.

MR. D. McKAY: On U.S. dollar contracts, we are both paid in U.S. dollars and we're also buying U.S. components in U.S. dollars, so the necessity of futures in hedging isn't quite as important on Canadian contracts on the other hand and we have not had major ones other than we're looking forward to some going forward, although this year we have one; but unfortunately for us, most of the components are in Canadian dollars from our U.S. suppliers. So again, the need of hedging isn't entirely or futures is not entirely required, but we see this going into some of the - in fact, it's part of our new contract proposals for Canadian - let's say the price is put on on the basis of having in fact futures pegged at a certain amount of Canadian dollars in relation to proposals that we put in.

MADAM CHAIRMAN: Mr. Orchard.

MR. D. ORCHARD: Well, that last bit of questioning is quite intriguing. Now, I take it then that the U.S. bus orders, the contract is priced or you are awarded the contract on the basis of a delivered price in U.S. dollars and - I'm trying to figure out how this impacts without using the market mechanism of hedging - the components that you bring in from the United States, they trade off theoretically and then it's only your Canadian components, which if the dollar drops is to your advantage. Would that be a correct assumption on a fixed price contract?

MR. D. McKAY: Yes. Again, at the time of conversion of the U.S. dollars, for instance, although we're paid in U.S. dollars, the components that are U.S. dollar components could go as high as 60 percent of the total selling price or as low as 40 percent depending again on where those are selected. The conversion of the U.S. dollar then at the time it is converted becomes a conceivable gain to you depending on what time frame you choose to do that. So, in answer then to the remaining part, which is basically our labour and our

Canadian components, again with the Canadian dollar going down it does show us some gain in terms of contract margins.

MR. D. ORCHARD: Then on the U.S. contract, there is no indication that as components are brought in that Flyer should be hedging the dollar value of those. Say, for instance, today where we do appear to have quite a volatile dollar market and maybe the prospects of a 75-cent dollar, despite a federal intervention, does that trigger the necessity or the desirability to start hedging U.S. components, the dollar value in them?

MR. D. MCKAY: Well, assuming it will, going forward; it hasn't to date. We've seriously looked at it, but there's been no real advantage with the mix that we've had. We have to be cognizant. If we were to go into a year where every vehicle is a Canadian dollar vehicle and Canadian dollar paid, we would have to have hedging and peg it. If we went into that proposal with say an 80-cent dollar, we'd have to peg it at an 80-cent dollar and not risk the loss of 5 percent on the Canadian dollar.

MR. D. ORCHARD: When your tenders are open, you're aware of what your competitors have bid, etc. How close has the bidding been on a unit basis? Have you been winning yours by several hundred dollars or several thousand dollars per bus?

MR. D. MCKAY: I'd have a very difficult time answering that question because it varies practically with every tender. We've been as close in one property in the United States as \$200 a unit and we've been as far apart in another property as \$15,000 a unit and that depends on a tremendous number of variables.

MR. D. ORCHARD: Well, the point that my colleague made, that roughly a \$350 impact on the payroll tax in that \$200 order would have put you out of the bidding market there.

MR. D. MCKAY: On that specific one, it could.

MR. D. ORCHARD: Have there been any seasonal layoffs at Flyer?

MR. D. MCKAY: No.

MR. D. ORCHARD: What's the current staff complement?

MR. D. MCKAY: Everybody, including salaried and hourly rate of staff, there is in the order of 570.

MR. D. ORCHARD: A question to the Minister. What's the current makeup of the Board of Directors?

MADAM CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: It's on the back page.

MR. D. ORCHARD: Have there been any changes to the Board of Directors?

HON. W. PARASIUK: I'll just have to check on that.

John Burns isn't listed there, but he was taken off the Board.

MR. D. ORCHARD: So then, the Board as listed on the back pages is the current Board?

HON. W. PARASIUK: Yes.

MR. D. ORCHARD: Are you contemplating any changes to this Board, Mr. Minister?

HON. W. PARASIUK: I might have one or two additions and I might have one or two deletions; I haven't addressed that question yet. I see, for example - and I haven't met the person; I certainly hope to - there is a Mr. McNaughton who's not resident in Manitoba anymore. I'd like to just look at that. I have nothing against a person being a member of the Board who isn't resident of the province anymore, but there may be some expenses involved with that. There may be someone who is just as capable of serving on the Board here in Manitoba, but I don't want to really get into that because I think he's probably made a good contribution to the Board to date and I wouldn't really want to prejudge the matter. I certainly want to discuss these types of things though.

MR. D. ORCHARD: Once again, I guess the members of the committee and indeed the officers of Flyer Industries have to be fairly pleased with the performance of the last couple of years and the prospects for this year look quite good, and if I might, I think that could be attributed in part certainly to the Board of Directors and their input to the direction Flyer has taken. Since the Minister is always open to my advice when offered, I would hope he considers the Board of Directors in a very favourable light that they've been able to bring the company to, and in making any changes, takes into consideration that these people have done obviously a pretty competent job.

One final question for the Minister. Are there any contemplation or circumstances under which he might consider joint venturing with a private company in Flyer or removal of direct MBC involvement in Flyer through sale?

HON. W. PARASIUK: Again, I don't have a prejudgment there. I wouldn't preclude discussing any of these possibilities with anyone. My door is always open to sit down and talk to anyone who might have an interesting proposal to make to the government. There may be some possible advantages with respect to a joint venture with respect to the "Buy America" clause. There may be some positive aspects with respect to some types of joint venture with respect to Research and Development, which is another area that's been raised. So I certainly don't have any preconceptions about not pursuing any of these possibilities that may in fact make the operation as an operation here in Manitoba more viable. Obviously, one has concerns about any type of joint activity that would lead to the plant closing down in Manitoba and being moved somewhere else because obviously we provide competition within the Canadian context and within the American context, hopefully or possibly within the world context and to the extent that some competitor

might want to buy us out and then close the plant down obviously wouldn't be in the long-term interests of Manitoba. We do have 570 jobs there and I think it would be our hope to try and ensure that there is a long-term development of the bus industry, a continuation of the bus industry in Manitoba. That would be our long-term desire. Any proposal or possibility that would enhance that objective certainly would receive an open-minded response from myself and, I'm pretty sure, the government.

MR. D. ORCHARD: That's all the questions I have. If I might just wish Mr. McKay a successful operation for the balance of the year.

MADAM CHAIRMAN: Mr. Filmon is next on the list.

MR. G. FILMON: Thank you, Madam Chairperson. The President of the company referred to the fact that they have to deal with the regulatory tariff situation in the United States. Now, is that a regulatory tariff that says that if an exporter, somebody from outside of the United States, is bidding on a contract they must be at least 10 percent less than the lowest American bidder in order to receive the contract or is this an actual tariff whereby once the buses cross the line 10 percent is added on to the price to deliver them into the United States?

MADAM CHAIRMAN: Mr. McKay.

MR. D. MCKAY: I'm afraid the words were my own. Basically, The "Buy America" Act has four waivers to The "Buy America" Act. The only one that we really qualify is that if indeed we submit a bid which is 10 percent below a domestic bidder, then we would get a waiver under The "Buy America" Act to in fact conclude that deal. The other three, to this date, have never been used and are not likely to be used in my perception going forward. In effect, assuming it were 9.5 percent low, the customer ends up paying a 9.5 percent, if you want to call it, extra to get a bus from a domestic producer in the United States, but there is no formal tariff.

MR. G. FILMON: I thought that and I did understand correctly, Mr. McKay, but I just wanted to make sure that there wasn't something I wasn't aware of.

A number of years ago, in fact the fall of 1976, I was at the American Public Transit Association Conference in San Francisco. It was an interesting time because at the time I was there as the Chairman of Works and Operations for the City of Winnipeg, Flyer, whether by accident or by design, had no representative at the conference which was rather unusual because it's, as the President knows, the largest group involved with public transit, the largest group of customers I suppose that Flyer could ever be in a position to come in contact with in the world. Together there were some 6,000 or 8,000 people there at the conference. There were many many customers of Flyer there who, seeing my badge saying Winnipeg, Canada, kept coming up to me and asking me questions or sharing information about Flyer. I dutifully listened, being a strong, avid and enthusiastic booster of both Winnipeg and Manitoba businesses, industry and what-

ever else we have to offer, I took notes and dutifully reported back to the then sales manager of Flyer with a recommendation that: (a) they never again not go to one of those conferences; (b) that they follow up with certain of the customers about valid concerns that they expressed about Flyer.

I was interested to find that, I suppose, at that time the most enthusiastic customers for Flyer came from California. San Francisco, in particular at the time, had almost all Flyer buses, and I utilized the public transit system when I was there and was fascinated at the fact that they were.

At that time they were very concerned about the fact that Flyer apparently showed no intention of tooling up to offer the chair-lift option which would exclude them from all future purchases in most of the United States. I'm glad to hear that Flyer does offer that now, and it just shows you that I haven't kept in touch with it along the way. How long has Flyer been offering the option of being able to put in chair lifts?

MR. D. MCKAY: I would say the initial chair lifts went into service in 1979; up till July of last year it was mandatory that every bus that was purchased using federally-funded money had to have a chair lift on it. That regulation changed to make it optional if there was an alternative. But every contract - we just finished one in Boston - with 84 on it and then they took 84 without chair lifts, so it's very common. We designed that as a feature into our bus some three years ago.

MR. G. FILMON: That mandatory aspect, Madam Chairperson, was what really concerned those customers because they could no longer purchase buses from Flyer.

The other point that was made, I was listening closely to your description of Canadian customers, was that at that time Edmonton had made some major purchases of Flyer buses. The Edmonton Director of Public Transit was sharing some not so welcome information in that they had some very big problems that I think required Flyer to go out or send people out there and do something specifically to all of the buses that they had sold to make good or try and repair them. Is that one of the reasons why we haven't been selling to the Edmonton market since then?

MR. D. MCKAY: I would say that's had a bearing on that. We have worked very diligently during the last couple of years to ensure that we could remove that as a consideration. I wouldn't say we've completely done it in that case. I'm happy to report that certainly the City of Toronto has been completely turned around to the point today where they consider a Flyer bus equal if not the same as any of our competitors' buses. This is a matter of time and renewed dedication on our behalf.

MR. G. FILMON: I'm pleased to hear of all of these changes because, as Mr. McKay and all those involved with Flyer know, it's so difficult to turn around a bad impression once it's been left with somebody. Customers almost throw you out, just as a consideration, throw you out without any future opportunity to make good. So hopefully we are back in a situation where the product is well received and will continue to be in

Tuesday, 8 June, 1982

the forefront of choice where there is an option for choice to public transit authorities in North America.

I have no further questions, Madam Chairperson.

MADAM CHAIRMAN: Mr. McKenzie.

MR. W. McKENZIE: I just have one, Madam Chairperson. I'd like to thank Flyer for this excellent informative report and the format in which it's laid out for us. I'm sure I can speak on behalf of all the Committee. It's an excellent way to present the annual statement and I'm most grateful.

MR. D. McKAY: Our customers appreciate it too, I think.

MADAM CHAIRMAN: Do you wish to pass the report in its entirety? Pass.
Committee rise.